

TEXAS

RACING COMMISSION

2011 ANNUAL REPORT

Submitted January 31, 2012



TEXAS

RACING COMMISSION

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TEXAS RACING COMMISSION
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January 20, 2012

The Honorable Rick Perry
Governor of the State of Texas
State Capitol, Room 200
Austin, Texas 78701

Dear Governor Perry:

On behalf of my fellow Commissioners and staff, I am pleased to submit the Texas Racing Commission's 2011 Annual Report in accordance with Section 3.10 of the Texas Racing Act, Article 179e, Vernon's Texas Civil Statutes. The Annual Report highlights the results of the Commission's regulatory efforts, along with statistics of interest.

The Texas pari-mutuel industry continued a downward trend in 2011. The total amount wagered at Texas racetracks fell by more than \$36.5 million, representing a 10 percent decrease from 2010 wagering totals. Nationally, wagering on Thoroughbred horse racing also fell a little more than 5.5 percent.

Texas racetracks continue to face stiff competition from the additional wagering opportunities in all of our neighboring states and Mexico and unregulated gaming via the Internet. While the average purse per race has remained relatively constant in Texas, tracks have decreased the number of racing opportunities available to horsemen. The total amount in purses paid to horsemen has actually dropped. As a direct byproduct, the breeding industry and associated agricultural businesses are suffering. Texas is seeing the evidence of a movement away from the state in the decreased number of foals produced and stallions standing for stud. For example, from 2005 to 2009, the most recent year for which complete information is available, the number of Texas registered Thoroughbred foals decreased by 33 percent.

From a regulatory perspective, the Commission had a very productive Sunset review that yielded important changes to the Texas Racing Act during the 82nd Legislative Session. The Commission embraces these legislative changes and is working diligently through its Committee on Rules to ensure effective implementation of the legislature's intent. In particular, the Commission is focusing on defining what constitutes an active track license versus an inactive one.

On behalf of the Texas Racing Commission, I would like to reiterate our commitment to providing fair, effective and efficient regulation of the pari-mutuel industry.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert Schmidt 70".

Robert Schmidt, MD
Presiding Officer

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January 24, 2012

The Honorable Rick Perry
Governor of the State of Texas
State Capitol, Room 200
Austin, Texas 78701

Dear Governor Perry:

I respectfully submit the Commission's 2011 Annual Report.

The Commission regulates a complex industry that operates seven days a week, 364 days a year. I appreciate the valuable contribution of every Commission member. They generously give time and energy, and, based on a wealth of professional and business expertise, provide quality leadership.

I highly commend my staff. The agency's employees work long hours in a highly regulated industry and do so with an ultimate sense of teamwork. We all remain determined and dedicated to protecting the broad public interest and integrity, as well as the health, safety and welfare of all involved in racing.

On behalf of the Commissioners and the staff, I thank the Texas Department of Public Safety and the Texas Comptroller of Public Accounts as each consistently provides critical assistance in regulating the pari-mutuel industry. These state agency partnerships effectively demonstrate the benefits derived from coordinated efforts and resources.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Trout", with a stylized flourish at the end.

Chuck Trout
Executive Director

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TEXAS DEPARTMENT OF PUBLIC SAFETY

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JOHN STEEN
CARIN MARCY BARTH
A. CYNTHIA LEON

January 11, 2012

Dr. Robert Schmidt, Chairman
Texas Racing Commission
8505 Cross Park Drive, Suite 110
Austin, Texas 78754-4594

RE: ARTICLE 179e, SECTION 3.10
VERNON'S TEXAS CIVIL STATUTES

Dear Chairman Schmidt,

Pursuant to the requirements outlined in Article 179e, Section 3.10 of Vernon's Texas Civil Statutes, the Texas Department of Public Safety provides the following information relating to organized crime and illegal gambling in Texas for the year 2011.

CRIMINAL ACTIVITY AND CRIME TRENDS

Today, Texas faces far more insidious threats than it has in the past, to include ruthless Mexican cartels, violent transnational and statewide gangs, high-threat criminals such as sex offenders who prey upon children, domestic terrorists, and international terrorist organizations who seek to destroy us and our way of life.

In 2011, the Department was committed to enhancing its resources regarding Homeland Security in order to continue to protect Texas from increasingly dangerous criminal and terrorism threats. To accomplish this goal, the Department concentrated its resources on criminal organizations and transnational gangs involved in criminal enterprises such as drug trafficking, vehicle theft, human trafficking and other types of major criminal activity. The Texas-Mexico border region contains distinctive and complex security challenges that impact not only local areas, but also metropolitan areas across the United States. The continued violence along the border and the multi-billion dollar drug and human smuggling businesses posed the most serious threat to Texas and the nation. Efforts to curtail the border violence continued to be effective due to the growing partnerships cultivated with local, state, and federal agencies in Texas. This multi-agency collaboration contributed to numerous successes in 2011 through extensive investigations regarding high-risk criminals and predatory criminal gangs.

EQUAL OPPORTUNITY EMPLOYER
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Additionally, the increasing number of identity theft and other fraud schemes, aided by rapidly changing technology, continued to plague law enforcement agencies at all levels of government. Law enforcement officials continued to work to protect citizens who have fallen victim to these types of criminal activities.

The reportable crime index for 2011 will not be available until mid-year 2012.

ILLEGAL GAMBLING

Illegal gambling involving 8-liner businesses continued to be an issue, reflected by the number of referrals received by local and state officers this past year. Gambling related to animals, such as dog fights and cockfights, is known to occur and challenge law enforcement, predominantly in the rural areas and the inner metropolitan city neighborhoods of Texas.

Unsanctioned horse racing at non pari-mutuel tracks, or "brush tracks," continued to occur in various rural areas in Texas. Racing authorities and racing interests believe these unsanctioned tracks have an adverse impact on the legitimate pari-mutuel tracks and the racing industry in Texas, both operationally and economically. While unsanctioned horse racing is an issue, using covert operations to identify individuals involved in illegal activities at these tracks is difficult due to the familiarity the participants have with each other. Moreover, the erratic scheduling of these operations and the undisclosed rural locations further hindered investigations by law enforcement officers. The Department continues to coordinate with local and state law enforcement agencies in an effort to reduce and eliminate these illegal businesses.

Sincerely yours,

Thomas Ruocco, Assistant Director
Criminal Investigations Division

A handwritten signature in cursive script, appearing to read "W.D. Reynolds".

Wynn Reynolds, Major
Criminal Investigations Division

THE COMMISSION

The Texas Legislature created the Texas Racing Commission in 1986 to be the state agency responsible for overseeing and regulating pari-mutuel horse and greyhound racing in Texas. The Commission functions pursuant to authority granted in the Texas Racing Act, Vernon's Texas Civil Statutes, Art. 179e.

MISSION

To enforce the Texas Racing Act and the Rules of Racing to ensure the safety, integrity and fairness of Texas pari-mutuel racing.

PHILOSOPHY

The Texas Racing Commission performs its responsibilities in strict compliance with state laws. The agency conducts its regulatory activities fairly, consistently, efficiently and courteously.

THE COMMISSIONERS

The Commission is made up of nine members. The governor appoints seven individuals with the advice and consent of the Texas Senate. Two commissioners, the Comptroller of Public Accounts and the Chair of the Public Safety Commission, are ex-officio members. The seven non-salaried commissioners serve overlapping six-year terms.

Of the seven appointees, five represent the general public and have general knowledge of business or agribusiness. One may be a veterinarian. One member must have experience or special knowledge of greyhound racing and one must have experience or special knowledge of horse racing. The governor designates the Commission's chairman. The nine members elect a vice chair for a two-year term.

Gov. Rick Perry appointed **Robert Schmidt, MD**, of Fort Worth to chair the Commission on September 2, 2011. Chairman Schmidt previously served as the Commission's vice chair and first joined the Commission in November 2007. Schmidt is a practicing orthopedic surgeon and a partner of the Texas Hip and Knee Center, L.L.P. He also serves as Chief-of-Staff at Plaza Medical Center of Fort Worth and Chair of the Division of Orthopedics of North Texas Specialty Physicians Network. Chairman Schmidt's term expires February 1, 2017.

Ronald F. Ederer of Corpus Christi was appointed in July 2007 as the commissioner with knowledge or experience related to horse racing. In November 2011, his fellow commissioners elected Ederer to serve as the Commission's vice chair. Ederer, an attorney in private practice, previously served as the US Attorney for the Western District of Texas. He is a member of the State Bar of Texas, San Antonio Bar Association, American Bar

Association and the Federal Bar Association. His term expires February 1, 2013.

Gloria Hicks of Corpus Christi was appointed in November 2007. She is the chief financial officer of Ed Hicks Imports. She is a member and past president of the Texas State Aquarium Board and a member of the South Texas Institute of the Arts Board of Governors. Hicks serves as a board member of the South Texas Botanical Gardens, Citizens for Education Excellence, Texas Society of Certified Public Accountants and American Institute of Public Accountancy. In October 2008, she was appointed as the commissioner with special knowledge or experience related to greyhound racing. Her term expires February 1, 2017.

Michael F. Martin, DVM, of San Antonio was appointed in November 2010. Martin is a veterinarian and principal owner of Retama Equine Hospital, Inc. He is a member of the American Association of Equine Practitioners, American and Texas Quarter Horse associations, and American and Texas Veterinary Medical associations. Martin is also a member of the Texas Equine Veterinary Association Board of Directors. His term expires February 1, 2015.

John T. Steen III of Houston joined the Commission in October 2011. Steen is director of commercial development for Lone Star NGL LLC. He is a Chartered Financial Analyst charter holder, an Eagle Scout and a life member of the Sons of the Republic of Texas. He is also a past member of the State Board of Dental Examiners. Steen's term expires February 1, 2013.

Vicki Smith Weinberg was appointed in April 2009. Weinberg is a self-employed real estate investor and a member of the International Council of Shopping Centers. She is also past education foundation director for the Grapevine-Colleyville Independent School District. Weinberg's term expires February 1, 2015.

EX-OFFICIO MEMBERS

Allen B. Polunsky, Chair of the Public Safety Commission, serves as the Public Safety Commission's representative on the Racing Commission. Polunsky is managing partner and founder of Polunsky and Beitel, LLP. He is a past member of the Texas Board of Criminal Justice, where he served 13 years, including five as chairman. He is also past president of the City of San Antonio Industrial Development Authority, past chairman of the San Antonio Zoning Commission and a past board member of the Finance Commission of Texas. Additionally, Polunsky is a past board member of the San Antonio River Authority, Special Olympics of Texas and San Antonio

Food Bank. Polunsky has served as chairman of the Public Safety Commission since March 2007. His term was extended by the governor on December 30, 2009, for six additional years, expiring December 30, 2015.

Susan Combs of Austin was sworn into office in January 2007 as the Comptroller of Public Accounts and serves as an ex-officio member of the Racing Commission. **Ann O'Connell**, Special Counsel to the Comptroller and Director of Criminal Investigations, serves as Combs' official designee at Commission meetings.

COMMISSION MEETINGS, SIGNIFICANT ACTIONS AND ACTIVITIES

The Racing Commission met six times during calendar year 2011. The Commission's meetings are open to the public and, in addition to the required postings in the Texas Register, the agendas and agenda materials are posted on the agency's website prior to the meeting. Transcripts of each Commission meeting are also available at www.txrc.state.tx.us.

RACE DATE ALLOCATION

Between 2009 and 2011, the number of race dates that Texas horse tracks requested declined from 265 to 229. The Commission granted 2012 horse and greyhound race dates at the September meeting. The changes horse tracks made to their 2011 racing calendar are carrying over to their 2012 schedules, with each track running very similar meets. The overall number of race day opportunities at Lone Star Park, Retama Park, Sam Houston Race Park and Gillespie Fair and Festivals Association in 2012 remained at 191. This is the first year since 2002 that the number of dates for operational racetracks has not declined.

After steep race date declines from 2009 to 2011, racing opportunities in 2012 will equal 2011.

Several tracks that have not been constructed — Laredo Downs, Laredo Race Park, Longhorn Downs, Saddle Brook Park and Valle de los Tesoros — requested and were granted 2012 race dates.

Gulf Greyhound Park will also continue with their established schedule of year-round racing, offering 309 performances. Neither Gulf Coast Racing nor Valley Race Park requested 2012 racedates. Each requested and were granted five performances in 2013.

See page 70 for a complete listing of granted horse and greyhound race dates.

LEADERSHIP CHANGES

The Commission's leadership underwent multiple changes in 2011. Rolando Pablos, the Commission's chairman since 2008, resigned his position in September. The governor first appointed Pablos to the Commission in 2007.

The governor then named Robert Schmidt the Commission's newest chairman. Schmidt's tenure with the Commission began in November 2007. Schmidt's fellow commissioners previously elected him to the Commission's vice chairmanship.

The commissioners elected Ronald Ederer as the Commission's vice chair in November 2011. Ederer joined the Commission in July 2007.

In December 2010, following Executive Director Charla Ann King's retirement, the Commission named Deputy Director for Racing Oversight Chuck Trout as interim executive director. In April 2011, the Commission appointed Trout as executive director.

PARI-MUTUEL ADVISORY COMMITTEE

The Commission created the Texas Pari-Mutuel Advisory Committee in 1995 to review the agency's rules regarding pari-mutuel pool distribution, pari-mutuel department operations and

totalisator operations. The committee includes the mutuel managers and simulcast coordinators from each Texas racetrack, a representative of the Texas Horsemen's Partnership and the various breed organizations, a representative from each of the three totalisator companies operating in Texas, a representative from the Comptroller of Public Accounts and the Commission's senior team members from the Division of Wagering and Racing Review. The committee reports to the Committee on Rules and recommends revisions primarily to Chapter 321, Pari-Mutuel Wagering.

As part of a broader 2010 Commission rule review, the committee engaged in a complete assessment of Chapter 321. During that review, the committee tabled changes related to Subchapter B (Totalisator Requirements and Operating Environment) as the changes had the potential for significant nationwide impact. Tabling the changes allowed further vetting of the proposals at the national level, specifically through the Association of Racing Commissioners International.

During 2011, at RCI's invitation, staff brought the proposed tote standard changes to the RCI Wagering Systems Security Committee for comment and consideration. In July 2011, a day after the RCI's Model Rules Committee voted unanimously to approve the standards, RCI's Executive Board formally adopted them. The changes to tote standards that began in Texas will serve as a model for the nation.

COMMITTEE ON RULES

In 2009, the Commission implemented the Committee on Rules to provide a forum for an in-depth review of proposed rule changes. During 2011, the committee met four times, closing the reviews of Chapters 307 (Proceedings Before the Commission); 321 Subchapters A, C, D and E (Pari-Mutuel Wagering) and 323 (Disciplinary Action and Enforcement) that it began in December 2009. The committee opened rule reviews on Chapters 301 (Definitions), 303 (General Provisions) and 319 (Veterinary Practices and Drug Testing).

The Commission adopted 28 rules recommended by the Committee on Rules during 2011. Much of the committee's work was devoted to implementing changes resulting from Sunset legislation passed during the 82nd Legislative Session.

The Commission formed two committees — the Ad Hoc Committee on Finance and the Committee on Rules to Implement HB 2271 (Sunset legislation) — to work in conjunction with the Committee on Rules to facilitate necessary changes. These committees each met twice during the year.

These two committees brought together all interested stakeholders to gather input on how to meet the new requirements and to work through the details of potential rules before passing recommendations to the Committee on Rules for further consideration. The Committee on Rules makes final recommendations to the Commission. The major rule emanating from the Ad Hoc Committee on Finance dealt with replacing the outstanding uncashed winning ticket revenue, also called OUTs, as a revenue source. With stakeholder input, the committee developed a rule to alter the fee structure to ensure adequate cash flow and revenue to cover the agency's expenses.

Although its work is not yet complete, the Committee on Rules to Implement HB 2271 did make numerous recommendations that the Commission has either formally proposed or adopted.

HORSE AND GREYHOUND RACE DATES CALENDAR COMMITTEES

The Horse and Greyhound Race Dates Calendar committees provided a forum for interested stakeholders and the public to discuss proposed race date calendars. Topics at the meetings included the potential number and locations of race dates and the purse levels for those dates.

The committees met once each to discuss industry calendar proposals. The Commission allocated race dates for both 2012 and the first 8 months of 2013 at its September 2011 meeting. The 2012 dates can be found on page 70.

SAFETY AND MEDICATION WORKING GROUP

The Safety and Medication Working Group met in July 2011. The meeting included a report on the status of equine piroplasmiasis, a tick-borne disease that can affect horses. Equine piroplasmiasis currently is incurable and requires quarantine. A horse with the disease often shows no signs of infection. The Texas Animal Health Commission — the agency with legislative authority to make and enforce regulations to prevent, control and eradicate specific infectious animal diseases which endanger livestock — passed rules related to equine piroplasmiasis. The racetracks in Texas follow the related Texas Animal Health Commission policies.

The Safety and Medication Working Group, following the RCI Regulatory Veterinarians Committee recommendation, proposed that the Commission lower the threshold for phenylbutazone, or bute as it is commonly called. Bute is a non-steroidal anti-inflammatory drug used to treat pain. The Commission agreed and reduced the bute threshold from five to two micrograms per milliliter of serum or plasma.

At the higher level, bute may have some analgesic effect at the time of the pre-race inspection, making it difficult to identify injuries. Lowering the rate should facilitate a more thorough assessment of potential lameness in competing race horses at the time of the pre-race evaluation. The lowered threshold became effective on January 1, 2012.

The Thoroughbred Owners and Breeders Association also adopted the change to lower the threshold. For TOBA graded stakes races across the nation, the threshold for bute was lowered from five to two micrograms for all graded stakes participants, also effective January 1, 2012.

THE LEGISLATURE AND THE RACING COMMISSION

SUNSET REVIEW AND LEGISLATION

Culminating a process that began with an initial Sunset review in 2007, in 2011, the 82nd Legislature passed a Racing Commission Sunset bill. The 2007 review resulted in a number of Sunset recommendations considered by the 81st Legislature in 2009. However, the original 2009 bill failed, and the Commission was one of five agencies subject to re-review.

The 2011 Sunset legislation provides clearer statutory authority and gives the Racing Commission added flexibility to oversee today's racing industry. Among the bill's major provisions, one altered the Commission's method of finance, eliminating outstanding pari-mutuel tickets and vouchers, or OUTs, as a source of revenue. OUTs are those tickets and

vouchers that are not presented for payment before their expiration date. The OUTs had become an unreliable, unpredictable and diminishing funding source for agency operations.

In place of the OUTs, which the tracks now retain, the agency worked with interested stakeholders to modify the fee structure. The new structure will ensure adequate cash flow and revenue to cover the agency's expenses. Further, the Sunset legislation amends the Racing Act to restrict sweeps of the agency's account to those unappropriated amounts above \$750,000. This provides the agency with adequate operating funds for the first 60-90 days of a new biennium.

The Sunset legislation specifies several new requirements related to licensing. By September 1, 2012, the Commission must identify each racetrack licensee as active or inactive and establish a renewal process for inactive track license holders. The Commission currently is working through its Committee on Rules, with input from stakeholders, on establishing guidelines for what constitutes an inactive license versus an active one. An inactive track will have to apply for annual renewal until it either becomes active or the Commission refuses to renew the license. The Commission may require the racetrack license holder to provide any information necessary for an original license application. Further, the bill requires the Commission to develop a process for conducting five-year staggered ownership and management reviews of active racetrack license holders.

The bill authorizes the Commission to require a racetrack license holder to post a bond in an amount necessary to ensure compliance with the Racing Act or Commission rules at any time. Previously, the Commission could only require a bond at the time of initial licensure.

The Sunset bill clarified the Commission's authority and ability to revoke a racetrack license for significant violations of the Texas Racing Act or Commission rules. Previously, the Racing Act stipulated that licenses were issued in perpetuity. This provision was removed. The bill requires the Commission to make a determination on a racetrack license application within 120 days from the time it is administratively complete. Previously, there was no such benchmark.

In terms of occupational licensing, the bill limits licensure to individuals who are directly involved in pari-mutuel activities. As of September 1, 2011, racetrack association staff such as clerical, accounting, admissions and food staff personnel are not required to secure a license. The bill codified the agency's policy of requiring licensees to undergo criminal history checks every three years, rather than five.

During its review, Sunset took note of the unregulated out-of-state entities that take advanced deposit wagers, or ADWs, from Texans. In Texas, the only place a person may make a legal wager on a horse or greyhound race is on the grounds of a licensed racetrack in Texas. These ADW companies, using phone and Internet wagering models, leverage technology not contemplated when the Racing Act originally passed. ADW transactions generate no money for the state or industry in Texas. The Sunset legislation clarifies that all unlicensed entities are prohibited from accepting wagers placed by Texas residents.

In another change of note, the legislation provides the executive director broad authority to review and modify decisions of the stewards and judges.

The Sunset Commission recommended that the Racing Commission continue as an independent agency for six years, instead of the usual twelve, in order to provide the legislature with an earlier opportunity to re-evaluate the agency's role in regulating a declining industry.

TEXAS DERBY BILL

A bill passed creating a series of horse races named the Texas Derbies. Two Thoroughbred races and two Quarter Horse races will make up the Texas Derbies. The races for each breed will consist of one open to all qualified participants and one limited to Texas-bred animals. The bill proposes that the races be held annually at one of the state's Class I tracks. The first derby cannot occur before January 2015. Funding for these derbies was not established in the bill.

OWNERSHIP AND LOCATION CHANGE REQUEST ACTIVITY

AUSTIN JOCKEY CLUB/LONGHORN DOWNS

The Austin Jockey Club requested permission to change ownership in Longhorn Downs to an entity called KTAGS, which proposed moving the license to Creedmoor, just outside of Austin. The Commission will consider the proposed changes at its February 2012 meeting.

LAREDO DOWNS

In late 2011, Laredo Downs withdrew a request filed in October 2010 to change the location of the proposed track from Laredo to Fort Worth.

LONE STAR PARK

In March 2009, Magna Entertainment Corp. filed for Chapter 11 bankruptcy protection. In September 2009, MEC placed MEC Lone Star L.P. into bankruptcy as part of its overall filing. In October 2009, Lone Star Park was sold at auction to Global Gaming LSP, LLC. This sale was approved by the bankruptcy court, subject to the subsequent approval of the Racing Commission. The proposed buyer of Lone Star Park, Global Gaming LSP, LLC, submitted its application to the Commission on March 31, 2010. The Commission approved the change in ownership at its May 13, 2011, meeting.

SAM HOUSTON RACE PARK, VALLEY RACE PARK AND LAREDO RACE PARK

MAXXAM Inc., the parent company of Sam Houston Race Park, Valley Race Park and Laredo Race Park, submitted a request to change 50 percent of the ownership in these three licenses to Penn National Gaming. After reviewing Penn National Gaming's application, the Commission approved the change in ownership at its April 1, 2011, meeting.

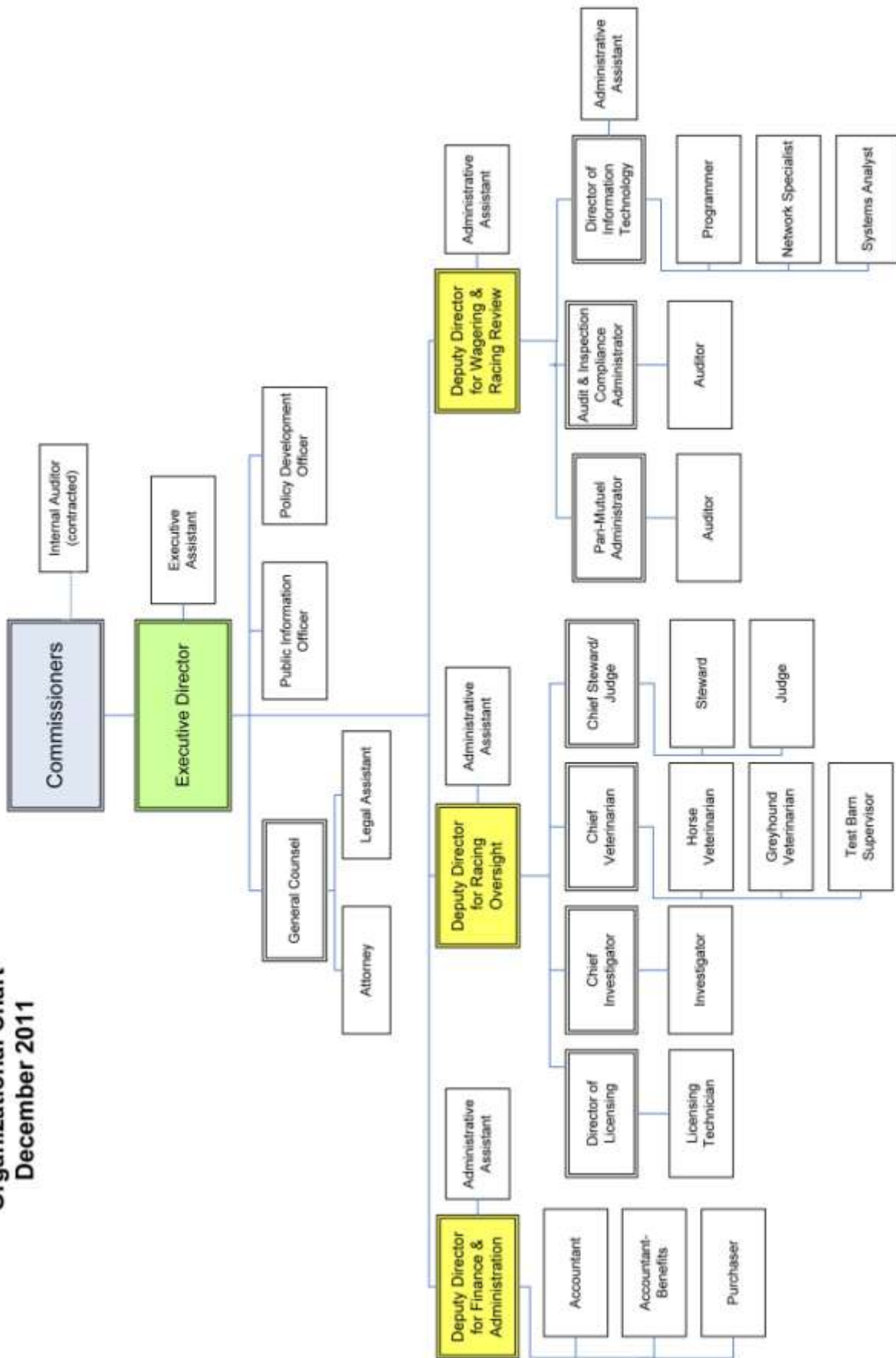
VALLE DE LOS TESOROS RACE PARK

In May 2011, Valle de los Tesoros filed an application for approval to conduct simulcasting at a temporary location. The Commission denied the request at its September 21, 2011, meeting.

TEXAS RACING COMMISSION

Organizational Chart

December 2011



AGENCY OVERVIEW – ORGANIZATION

The Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring and enforcement. Statute and rule require the Commission to:

- License racetracks that offer racing and the people directly involved with pari-mutuel wagering who work at the racetracks or own race animals.
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the totalisator systems (complex computer systems that tally and calculate pari-mutuel wagers) and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support a healthy and vigorous breeding industry in the state.

ORGANIZATIONAL STRUCTURE

The General Appropriations Act authorizes the agency to have 62.3 full-time equivalent positions in FY 2012 and FY 2013. This is down from the authorized 75.5 full-time equivalent positions in FY 2010 and FY 2011. While the

Racing Act requires the Commission's headquarters to be in Austin, approximately one-half of the staff work at the operating racetracks. Many of the employees outside Austin are seasonal, working only when the racetracks conduct live racing.

The Commission's workforce features a diverse collection of professions that includes auditors, veterinarians, stewards, racing judges, investigators, licensing staff and support personnel.

The Commission has a field office at the three operating Class 1 horse racetracks and at two of the three currently operating greyhound racetracks. Additionally, staff is always present at any field office when that track is running live racing.

The agency's structure features an executive group headed by an executive director; a Division for Racing Oversight; a Division for Wagering and Racing Review; and a Division for Finance and Administration. A deputy director leads each division. The three division structure encourages teamwork across the departments and supports effective communication.



EXECUTIVE

EXECUTIVE DIRECTOR

As the agency's administrative leader, the executive director supervises all agency activities and manages the agency's three divisions. The executive director oversees development of agency operating policies and procedures and ensures that the agency's regulatory responsibilities are carried out. The executive director represents the agency before the legislature and other governmental agencies. The executive director serves a primary role in external relations with industry stakeholders, regulators in other states and a national regulatory association.

With the assistance of the general counsel's staff, the executive director oversees coordination of the evaluation of racetrack license applications, the race date allocation process and assesses administrative penalties against racetrack licensees.

The executive director's office is also responsible for other administrative functions, including responding to public information and media requests.

GENERAL COUNSEL

The general counsel advises the commissioners and staff on legal and regulatory enforcement issues affecting the agency. Coordinating all aspects of Commission meetings and rulemaking proceedings, the general counsel also represents the agency before the State Office of Administrative Hearings when prosecuting appeals from decisions made by a Board of Stewards/Judges and disciplinary cases initiated by the executive director.

DIVISION FOR RACING OVERSIGHT

DEPUTY DIRECTOR FOR RACING OVERSIGHT

The deputy director for racing oversight leads a division focused on enforcement and oversight of day-to-day racetrack operations. The members of this group make up the agency's presence at Texas tracks. The deputy director supervises personnel directly responsible for regulating the conduct of live racing and is responsible for the following teams: licensing, investigations, veterinarians/drug testing and stewards/judges.

LICENSING

Staff in licensing issue occupational licenses to all persons in positions that afford the employee an opportunity to influence pari-mutuel wagering, or who will likely have significant access to the backside or restricted areas of a racetrack.

Licensing staff at each racetrack help maintain the integrity of the industry by ensuring that all appropriate participants are licensed and in good standing. To ensure that participants in racing are licensed as required, the Commission has more than fifty categories of occupational licenses. Stable and kennel area occupations — jockeys, owners, kennel owners, trainers and grooms — must secure licenses, as must some racetrack employees.

INVESTIGATIONS

The investigators, who are all licensed peace officers, coordinate enforcement of the Racing Act and the Commission's Rules of Racing.

Investigations are conducted on animal drug positives, criminal histories returned on license applicants, illegal wagering, use and possession of contraband, human drug abuse and narcotics trafficking, and other illicit activities that could affect the integrity of pari-mutuel racing.

Drug testing of licensees suspected of using illegal drugs while performing their duties has become an important aspect of regulating the industry. If a licensee tests positive for an illegal controlled substance or alcohol, the licensee faces a suspension and must seek professional help.

STEWARDS/JUDGES

The division includes stewards at horse tracks and judges at greyhound tracks. The stewards and judges supervise the conduct of live races and enforce the Racing Act and the Commission's Rules of Racing.

The stewards and judges have broad authority to resolve matters arising during a race meeting. They may issue fines up to \$5,000 and suspend licensees for up to one year. Additionally, the stewards and judges have the authority to disqualify horses and greyhounds and redistribute purse money.

VETERINARIANS/DRUG TESTING

The chief veterinarian oversees this department, supervising the veterinarians and test barn supervisors working at the racetracks.

Veterinarians in this division inspect all race animals before a competition to ensure they are sound to compete and the stable and kennel areas for animal health and safety issues. This division implements the Commission's race animal drug testing program.

The chief veterinarian serves as a liaison between the Commission and veterinary-related organizations and agencies, such as the Texas Animal Health Commission, the American Association of Equine Practitioners and the Texas Veterinary Medical Association.

DIVISION FOR WAGERING & RACING REVIEW

DEPUTY DIRECTOR FOR WAGERING & RACING REVIEW

This division employs an analytical approach to identify and address issues of concern at Texas racetracks. The division is responsible for all activities related to wagering and racing review. The deputy director for wagering & racing review leads the division, overseeing the agency's pari-mutuel auditors and the information technology team.

The division protects the interest of the wagering public and assures the proper collection and distribution of funds in accordance with the Racing Act. To achieve this, tests of the pari-mutuel totalisator, or tote, systems are performed to assure compliance with the Rules of Racing.

Racing review involves the systematic analysis of any given track's operations over a period of time. Racing review focuses on data and incident analyses to improve performance at tracks.

Areas identified through racing review lead to policy changes and process improvements that help ensure greater safety for the animal athletes, the jockeys, the public and all personnel at the track.

PARI-MUTUEL AUDITORS

Pari-mutuel auditors perform daily audits and verifications of handle, earned purse, paid purse, deposit reports and requests for simulcast approval. The audit staff also performs routine procedural audits, conducts random inspections of pari-mutuel wagering facilities and responds to public complaints relating to wagering.

DEPARTMENT OF INFORMATION TECHNOLOGY

The IT department develops and maintains the agency's network, database and website. This department recommends and supports all hardware and software necessary for the day-to-day activities of the Commission. The Commission's custom programs and database operate twenty-four hours a day, seven days a week, providing staff, licensees, the Department of Public Safety, the Texas A&M Veterinary Medical Diagnostic Laboratory and the general public with up-to-date information regarding all aspects of the Commission's regulatory programs.

DIVISION FOR FINANCE & ADMINISTRATION

DEPUTY DIRECTOR OF FINANCE & ADMINISTRATION

This division, headed by the deputy director of finance & administration, is responsible for the budget, accounting, purchasing, human resources, travel compliance and other Commission administrative functions. The division prepares the biennial Legislative Appropriations Request, the Annual Financial Report, the operating budget, reports on performance measures and many other required reports. The deputy director supervises an accountant, a benefits coordinator and a purchaser who work together to support agency personnel and operations.

FISCAL INFORMATION

BUDGET AND FINANCE

The Commission is self-funded by the entities it regulates and is typically appropriated only GR–Dedicated funds. The agency’s revenue primarily comes from fees assessed to racetracks and occupational licensees. For FY 2010 and FY 2011, the legislature provided the agency an additional \$1.5 million in General Revenue Funds. This additional funding was to compensate for fluctuations in the agency’s cash flow caused by variations in the uncashed, or outstanding ticket revenue, also called OUTs. As mentioned earlier, the Sunset legislation removed the OUTs as a form of revenue for the agency. The agency has repaid the \$1.5 million plus interest to the General Revenue Fund.

For FY 2011, the Commission has a total appropriation of approximately \$10.1 million. The agency’s operating budget is \$5.0 million, of which nearly 80 percent is salary and salary-related expenses. The \$10.1 million appropriation includes a direct, dedicated-revenue pass-through of almost \$5.1 million for the Texas-Bred Incentive Program.

The Texas-Bred Incentive Program is authorized in the Racing Act. It provides purse supplements and monetary awards to breeders and owners of Texas-bred greyhounds and horses to encourage economic development through agribusiness in the horse and greyhound breeding industries.

Funding for the Texas-Bred Incentive Program comes from breakage from all types of wagers and a small percentage of all exotic wagers. Generally, breakage is the amount available after payoffs to winning ticket holders rounded down to the nearest dime.

SERVICE POPULATIONS

The wagering public desires confidence in the integrity of the pari-mutuel racing offered in this state. These patrons supply the revenue that drives the industry; therefore, they expect pari-mutuel wagering activity that is free from manipulation and races that are conducted fairly and honestly.

The breeders of race animals seek an active industry in which to sell their product. Breeders invest millions of dollars in real estate, construction and operations to supply the industry with Texas-bred race animals. They benefit from pari-mutuel racing through the Texas-Bred Incentive Program. This program provides economic incentives designed to support the industry and encourage its growth and ability to compete at a national level.

Pari-mutuel racing provides the livelihood for many occupational licensees. These individuals are demonstrably committed to racing, working hard to reap the rewards of an interesting and unique industry. This population also includes the totalisator, or tote, companies. Tote companies provide the complex computer systems that calculate pari-mutuel wager payouts. Each licensed racetrack contracts with one company to provide tote services at its facility. Three of the North American tote companies provide services in Texas.

Licensed racetracks, also called associations, provide the arena for racing and wagering. These associations have built or renovated racetrack facilities, at the cost of tens of millions of dollars, for the privilege of providing pari-mutuel racing and wagering. The Racing Act limits the number of licensed Class 1 horse and greyhound licenses to three each. The Commission has granted all the available Class 1 and greyhound licenses. Under current law, the only prospect for an increase

in the number of associations is if the Commission issues additional Class 2, 3 or 4 horse racetrack licenses.

Texans profit from the tax dollars and overall economic benefits derived from pari-mutuel racing. Although the amount of direct revenue to the state treasury from pari-mutuel wagering is a small part of the state's total revenues, the public can rely on the Commission to regulate the industry in a manner that secures that revenue. Tax revenue to the state is down nearly 33 percent over the past five years.

Race animals are the foundation of the pari-mutuel racing industry. Without their efforts, no wagering product would exist. Although the animals are not a service population in the traditional sense, the Commission recognizes its critical responsibility to protect the health and safety of these animal athletes.

OTHER AFFECTED POPULATIONS

The Commission's activities affect populations other than those directly served. For example,

- Law enforcement agencies rely on Commission investigators to share information regarding licensees and to assist with arrests when necessary.
- Both racing and non-racing related local community businesses, such as hay suppliers, tack vendors and food service businesses, among others, provide products or services to the associations, to the occupational licensees, or both.
- Other racing jurisdictions rely on the profitability of their own racetracks, which are affected by Commission decisions on race dates and simulcasting. In addition, neighboring racing jurisdictions often license many of the same people as the Commission and seek to exchange licensing and enforcement information.
- The racing industry and its regulatory process may affect other Texas governmental entities, including the judicial system and local law enforcement.

AGENCY HIGHLIGHTS

ADMINISTRATIVE

During FY 2011, the agency met or exceeded three of its five performance outcome measure targets: increase the percentage of compliance audits passed; reduce the rate of rulings by maintaining a high percentage of investigations resulting in disciplinary action; and have a high percentage of licensees with no recent violations. The agency will continue to focus efforts to meet the two outcome targets that relate to animal injuries and improving customer wait times.

The executive division coordinated six regular Commission meetings. The general counsel coordinated rule reviews for Chapters 307, 321 and 323 as required by Government Code §2001.039. The general counsel also facilitated the development of rules necessary with passage of the Sunset legislation. During the year, the Commission adopted 28 new rules or amendments to existing rules.

TECHNOLOGY

In 2011, the information technology department processed 150 database data change requests, 124 programming requests and 87 help desk requests. In 2010, the agency began upgrading to the Windows 7 operating system and Office 2007. The Commission continued this project in 2011, purchasing the remaining PCs to move all employees to Windows 7 and deploying an additional 39 PCs. This process will conclude in January 2012.

The agency completed a life-cycle replacement on agency monitors and printers. The agency's life-cycle for PCs and peripherals is four to six years.

In April 2011, the agency finished its migration to a new e-mail and calendaring application. In late 2010, the IT department began preparation to migrate the agency's database to a new server and to the latest version of the database software. After four months of programming, user acceptance testing began in June 2011. The new version of the database went into production in August 2011.

Database and e-mail
projects completed.
Windows 7 migration
winding down.

After completing two major application projects and nearing the conclusion on the desktop migration work, the department turned its focus to several key administrative matters. Staff initiated a comprehensive IT policy review and put the final touches on a project management process. After a careful review of the agency's budget and IT workload, the IT department had key staffing positions restored in 2011.

REGULATORY

In 2011, pari-mutuel auditors reviewed wagering data on 5,909 live races and 686,232 simulcast races to ensure proper collection and distribution of funds. Staff reviewed a total of 1,811 import and export simulcast requests for compliance with the Racing Act, the Texas Rules of Racing and the Federal Interstate Horse Racing Act.

The Commission completed its seventh full year of participation in the Texas.gov program, formerly TexasOnline, a web-based program that provides the public the convenience of applying

for a myriad of state services online. During 2011, approximately 10 percent of eligible individual and business renewals were processed through the online program. This represents a slight increase in usage. New license applications via the Texas.gov program also increased slightly, accounting for just more than 6 percent of those eligible to apply online for a new license.

Use of online application process increases

September 1, 2011, the effective date of the agency's Sunset legislation, ushered in significant occupational licensing changes. Before that date, the Commission issued occupational licenses and registrations to *all* persons involved in pari-mutuel greyhound and horse racing. After

Sunset bill's licensing requirements implemented Sept. 1, 2011

September 1, 2011, statute requires the Commission to license only those individuals in positions with the opportunity to influence pari-mutuel wagering or who will likely have significant access to the backside or restricted areas of a racetrack.

This change had its most dramatic affect on racetrack, or association, employees. While certain association employees still require licensure, many do not, including some clerical, accounting, food service and maintenance staff. Between September 1, 2010, and December 31, 2010, the Commission issued 197 association staff licenses. For the same period in 2011, the Commission only issued 33 association staff licenses, a decline of more than 83 percent.

Overall industry declines combined with the change in the occupational licensing requirement have forced licensing department cuts. The cuts have meant alterations to licensing office schedules when tracks are not running live meets or are not open for training. For example, the licensing office at Lone Star Park is now closed when there is no training. At Sam Houston Race Park, the Commission reduced licensing office hours from 40 hours a week to 20 and decreased the licensing office hours at Valley Race Park from 20 a week to four.

The Commission recognizes these changes affect its customers. The decrease in office hours and the closure of some of the licensing offices does mean fewer opportunities for face-to-face interactions with Commission staff. However, most customers still have full access to licensure through Texas.gov or a mail process.

In 2011, the Commission issued a total of 7,678 occupational licenses and 77 business licenses, down more than 10 percent from 2010. The decline in licenses issued is attributable directly to the overall decline in the racing industry and the implementation of the revised licensing policy.

Of the occupational licenses issued, 2,472 were for new licenses and 5,206 were for renewals. The Commission issued 711 trainer-type licenses, 140 jockey licenses and 18 apprentice jockey licenses during the year. Individual owners secured the most licenses with 2,236. Track employee licenses followed with a total of 950. The Commission issued the remaining 3,623 licenses among other categories such as association staff, grooms, kennel helpers, veterinarians and multiple owners. The 77 business licenses consisted of 15 kennel licenses and 62 vendor licenses.

Staff made significant revisions to both the written and practical sections of the horse trainer examinations in 2010 following an in-depth review. In conjunction with these revisions, the Commission published a comprehensive study guide to assist prospective trainers in preparing for the examination.

During 2011, the Commission oversaw 32 written tests and 18 practical exams. Of the written and practical tests administered, 78 percent of each resulted in passing scores. Thirteen tests were administered at Sam Houston Race Park, nine at Lone Star Park and eight at Retama Park.

Stewards and judges issued a total of 287 disciplinary rulings, with 218 resulting in fines, 100 resulting in suspensions and one resulting in revocation. The Commission denied one application for licensure due to ineligibility. Two appeals were filed during 2011 and one remains pending as of January 2012.

INVESTIGATIONS

During 2011, the investigations department worked 146 cases as compared to 297 in 2010. Case referrals to the Boards of Stewards/Judges for animal drug positives decreased from 72 in 2010 to 49 in 2011. Human drug positives decreased from 28 in 2010 to 18 in 2011.

By allocating resources tactically and cooperating with the DPS and local law enforcement agencies, the department strives for voluntary compliance with agency rules. The critical assistance from these entities helps ensure the safety of the public, participants and animals involved in racing.

Enforcement, a
collaborative effort

Investigators, along with the DPS and local law enforcement, continue to perform random inspections at all operating racetracks and licensed training centers. These inspections resulted in 11 contraband case referrals to the Boards of Stewards/Judges.

ANIMAL EXAMINATIONS / DRUG TESTING

Commission veterinarians examine each animal that is entered in a pari-mutuel race to determine its health and soundness for racing. During 2011, Commission veterinarians performed 31,526 greyhound and 15,926 equine pre-race examinations.

Commission veterinarians also supervised the collection of 6,195 greyhound urine specimens, 3,700 equine urine specimens and 3,895 equine blood specimens. These specimens were submitted to the Texas Veterinary Medical Diagnostic Laboratory, the Commission's authorized drug testing laboratory. The laboratory tested the specimens for substances that could alter the outcome of a race or would interfere with the detection of illegal drugs.

Pursuant to the authority granted by Commission rule, the executive director has promulgated a classification system for prohibited drugs, chemicals and other substances as a means of assessing penalties.

The classification system for greyhounds separates drugs into six classes based on their effect on the greyhounds. Of the 14 prohibited substances detected in greyhounds in 2011, all were Class 6 substances. These substances, polyethyleneglycol and procaine, have the least effect on greyhounds.

The classification system for equines consists of five classes. Of the 38 drug violations detected in racehorses during 2011, two were for Class 2 substances, five were Class 3 substances, 20 were Class 4 substances and four were Class 5 substances. Additionally, there were seven detections for an overage of a permitted substance, phenylbutazone.

The majority of the horse positives were generally the result of inadvertent or improperly timed administration of medications considered to have therapeutic value in the horse but unlikely to be of a performance enhancing nature.

The Commission began testing for anabolic steroids in January 2009. The effort continues to be very successful: through the third year of testing, there have been no anabolic steroid positives.

Third-year testing
resulted in no anabolic
steroid positives

RESULTS OF DRUG TESTING

2011 COMPARED TO 2010

GREYHOUND	2010	2011	HORSE	2010*	2011
No. of Starters	32,891	31,526	No. of Starters	18,236	15,926
No. of Samples	6,632	6,195	No. of Samples	4,487	3,895
Drug (Classification)			Drug (Classification)		
Polyethyleneglycol (6)	3	7	Butorphanol (3)	0	1
Procaine (6)	2	7	Caffeine (3)	1	2
Sulfadimethoxine (5)	<u>4</u>	<u>0</u>	Clenbuterol (3)	13	9
TOTAL	9	14	Dexamethasone (4)	2	3
			Dimethylsulfoxide (5)	1	0
			Firocoxib (4)	1	0
			Flunixin (4)	3	8
			Fluphenazine (2)	3	2
			Furosemide not found in		
			Furosemide Program Horses (n/a)	1	0
			Guaifenesin (4)	2	0
			Phenylbutazone (n/a)	25	7
			Polyethyleneglycol (5)	5	2
			Sulfadimethoxine (5)	2	0
			Sulfadiazine (5)	4	1
			Sulfamethoxazole (5)	1	0
			Theophylline (3)	0	1
			Trimethoprim (5)	0	1
			Xylazine (3)	1	0
			Zilpaterol (3)	<u>0</u>	<u>1</u>
			TOTAL	65	38

*The 2010 numbers have been updated from the figures originally reported. There was no Morphine positive, no Zilpaterol positive, and two Guaifenesin positives instead of the one previously reported.

GREYHOUND DRUG CLASSIFICATION SCHEDULE

- Class 1 substances have the highest pharmacologic potential to affect performance and have no generally accepted medical use in racing greyhounds.
- Class 2 substances are prominent central nervous system stimulants in the lesser DEA schedules.
- Class 3 substances include non-scheduled drugs that have no generally accepted therapeutic use in racing greyhounds, drugs that could alter performance in a normal, healthy greyhound, drugs that have a high potential for abuse as local anesthetics and potent diuretics with potential for diluting urine.
- Class 4 substances are non-scheduled drugs with cardiac or respiratory effects, mild sedatives and steroidal anti-inflammatory drugs with short withdrawal times indicating race day administration.
- Class 5 substances are therapeutic medications routinely used to restore the healing of an ailing greyhound.
- Class 6 substances are local anesthetics likely to produce urinary levels due to factors other than use as a nerve-blocking agent and substances likely to interfere with testing procedures.

HORSE DRUG CLASSIFICATION SCHEDULE

- Class 1 substances are stimulants and depressants that have the highest potential to affect performance and have no generally accepted medical use in racehorses.
- Class 2 substances have a high potential for affecting the outcome of a race and are not generally accepted as therapeutic agents in racehorses or they have therapeutic agents that have a high potential for abuse.
- Class 3 substances may or may not have a generally accepted therapeutic use in racehorses and have less potential for affecting the performance of a racehorse than Class 2 substances.
- Class 4 substances are therapeutic medications with a limited ability to influence performance that are routinely used in racehorses.
- Class 5 substances are therapeutic medications for which concentration limits have been established.

INSPECTION PROGRAM

The Commission has a mission to ensure pari-mutuel racing is conducted in a manner that protects the participants and the public. To accomplish this mission, the Commission developed a comprehensive inspection program for pari-mutuel racetracks and licensed training facilities. Through this inspection program, the Commission oversees all pari-mutuel racetrack license holders to monitor and ensure compliance with Commission rules.

INSPECTIONS BY AREA

The Commission's inspection program is separated into six inspection areas:

- Safety and security inspections focus on all security aspects of the facility, including outdoor lighting and fencing. Other areas reviewed include medical and first aid services, fire prevention measures, including inspecting the barns to ensure proper storage for hay and feed.
- Administrative operations inspections center on a review of association ownership records, bookkeeping and accounting systems. These inspections include a review of the facility from the patron's viewpoint, including cleanliness of patron facilities and amenities, posting of pertinent public notices and proper signage on automatic banking machines.
- Live racing operations inspections focus on all aspects of animal housing, including maintenance and cleanliness of barns and kennel areas. These inspections also cover the condition of the track surface, starting gates and boxes, rails and distance markers.
- Animal health and safety/drug testing operations inspections cover the drug testing facilities and equipment, the treatment areas and the equine ambulance. The inspections include a review of the overall maintenance of the backside areas with emphasis on ensuring a safe environment for both animals and licensees.
- Pari-mutuel wagering operations inspections include a review of all aspects of the wagering operations, including the track's mutuel department, the totalisator company's operations and all related wagering equipment.
- Training track inspections focus on the facility's overall track condition, including the track surface, starting gate, rails and distance markers. Other areas of focus include checking for proper licensing of training facility personnel and those bringing horses for official works.

2011 Inspections by Area

Type of Inspection	# Inspections
Safety and Security	16
Administrative Operations	6
Live Racing Operations	23
Animal Health and Safety/Drug Testing Operations	17
Pari-mutuel Wagering Operations	22
Training Tracks	5
TOTAL	89

INSPECTIONS BY TRACK

Of the 89 inspections, 46 were scheduled, 27 were random and 16 were follow-up. Sixty-nine, or 77.5 percent, of the scheduled and random inspections indicated 100 percent compliance with no remedial action required subsequent to initial inspection.

- Horse tracks are inspected before the opening of the live racing season and unannounced inspections are conducted during the live racing meet.
- Greyhound tracks are inspected at least once each year with periodic unannounced inspections occurring throughout the year.
- Training tracks are inspected yearly. Training facilities may provide official workouts for horses if licensed and inspected by the Commission.

2011 Inspections by Track

Track Name	# Inspections
Gulf Coast Racing	5
Gillespie County Fair & Festivals Association	8
Gulf Greyhound Park	24
Lone Star Park	18
Retama Park	10
Sam Houston Race Park	8
Valley Race Park	11
Delta Training Center	1
Diamond D Ranch Training Center	1
Oakleaf Training Center	2
Pink Crown Farms Training Center	1
TOTAL	89

TEXAS-BRED INCENTIVE PROGRAM

The Racing Act provides purse supplements and monetary awards to breeders and owners of Texas-bred horses and greyhounds to encourage the horse and greyhound breeding industries.

GREYHOUND PROGRAM

Funding for the Texas-Bred Greyhound Incentive Program is derived from:

- 50 percent of the total breakage from live, simulcast same-species and simulcast cross-species handle; and
- 1 percent of all multiple two and multiple three wagers from simulcast same-species and simulcast cross-species handle.

The 50 percent of breakage and the 1 percent of multiple two and three wagers are paid to the Texas Greyhound Association.

The breakage money is dedicated 50 percent to stakes races and 50 percent for administration of the Accredited Texas Bred program. The money received from multiple two and three wagers is paid as awards to those owners of Texas-bred greyhounds finishing first in races run at Texas tracks. Once a month, these funds are distributed by dividing the monthly total available for awards by the number of winning Texas-bred greyhounds for that month.

Of the total money from breakage received by the TGA, 2 percent must be set aside for grants for rehabilitating or locating homes for greyhounds. The procedures and criteria for applying for a grant were finalized by the TGA and approved by the Commission in 1999. During 2011, nine grants were distributed from this source of funding to qualified Texas non-profit rehabilitation and adoption groups totaling \$2,250.

Purse money earned from interstate simulcast wagering on greyhound races at a horse track is also paid to the TGA for use at Texas greyhound racetracks.

This source of purse money resulted in \$1,410,098 going to purses at Gulf Greyhound Park and Valley Race Park in 2011. This source remained fairly constant, decreasing less than 1 percent from the 2010 payout.

HORSE PROGRAM

The Racing Act authorizes an incentive award for each owner, breeder and stallion owner of an accredited Texas-bred horse that finishes first, second or third in any race other than a Texas-bred stakes race. The awards are funded from:

- breakage from all pari-mutuel pools; and
- 1 percent of all multiple two and multiple three wagers from live, simulcast same-species and simulcast cross-species handle.

A Texas-bred stakes race supplement is funded from 9.8 percent of the breakage from all pari-mutuel pools. This money is retained by the racetracks for distribution through the horsemen's bookkeeper. Horses finishing in an accredited Texas-bred stakes race receive an incentive award as a purse supplement according to the payout conditions of the race.

The remaining money is distributed on a 40 percent, 40 percent and 20 percent split, respectively, among the owners, breeders and stallion owners of the accredited Texas-bred horse.

The Racing Act names the official breed registries that are responsible for determining the qualifications for Texas-bred accreditation, maintaining the eligibility lists

and distributing the monetary awards: the Texas Thoroughbred Association, the Texas Quarter Horse Association, the Texas Appaloosa Horse Club, the Texas Arabian Breeders Association and the Texas Paint Horse Breeders Association.

In November 1998, the Texas Appaloosa Horse Club requested to be withdrawn from

the program due to lack of participation. The Commission forwarded the request to the legislature for its consideration but no action has ever been taken.

(See Appendix, page 69 for a directory of all official Texas breed registries.)

Texas-Bred Incentive Program

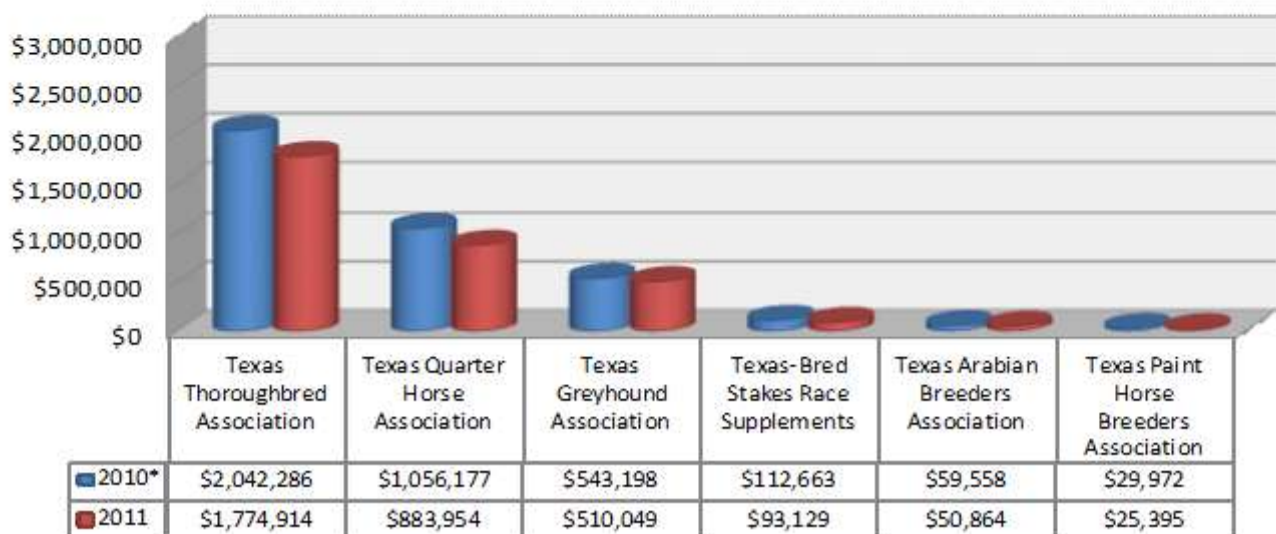
Comparative Distributions

Year 2011 vs. Year 2010

	2010*	2011	% Change
Texas Thoroughbred Association	\$2,042,286	\$1,774,914	-13.09%
Texas Quarter Horse Association	\$1,056,177	\$883,954	-16.31%
Texas Greyhound Association	\$543,198	\$510,049	-6.10%
Texas-Bred Stakes Race Supplements	\$112,663	\$93,129	-17.34%
Texas Arabian Breeders Association	\$59,558	\$50,864	-14.60%
Texas Paint Horse Breeders Association	\$29,972	\$25,395	-15.27%
TOTAL	\$3,843,854	\$3,338,305	-13.15%

*The 2010 figures have been updated as of March 8, 2011, from the figures originally reported in the Annual Report released January 31, 2011.

Comparative Distribution



EQUINE RESEARCH PROGRAM

The Racing Act mandates that a portion of wagers made at horse tracks fund equine research for racehorses. A 1991 amendment to the Racing Act created an 11-member panel called the Texas Equine Research Account Advisory Committee to provide expertise for evaluation of proposals for equine research and to provide a conduit for communication among equine scientists and representatives of the horse racing industry.

The Sunset legislation effective September 1, 2011, abolished the Texas Equine Research Account Advisory Committee. The Texas AgriLife Research, an agency of the Texas A&M University System, retains the sole authority to expend appropriated Equine Research Account funds.

INDUSTRY HIGHLIGHTS

To present a more complete picture of the Texas racing industry, the Commission includes the following information, submitted by Texas racing industry organizations.

TEXAS ARABIAN BREEDERS ASSOCIATION

The Texas Arabian Breeders Association hosted the Annual Arabian Racing Cup Darley Awards. The awards recognize the top Arabian horses, owners, breeders, trainers and jockeys in the US. Texas-bred horses were represented in five of seven horse categories, and Sam Vasquez was again nominated as owner of the year.

As evidence of the continuing improvement in Texas breeding programs, Accredited Texas-bred Arabians finished 1st, 2nd or 3rd in the highest percentage of Arabian races ever. While the total number of foals is down, quality is up.

Ed Wilson, TABA's President, was invited to attend the International Festival of Arabian Racing Conference in The Hague, Holland, where he served as a panel member representing Texas and the US during the conference.

TABA's Annual Arabian Stallion Breeding Auction was down slightly in number of breedings sold.

TEXAS GREYHOUND ASSOCIATION

The Texas Greyhound Association is the officially designated greyhound breed registry for accredited Texas-bred greyhounds. In 2011, Texas greyhound owners and breeders registered 1,951 greyhound puppies as Texas-bred.

The TGA paid out \$50,000 in Texas-bred stakes races during 2011 and more than \$459,000 in owner awards.

Texas-bred greyhounds dominated the stakes events and were the top sellers in the National Greyhound Association biannual meet and sale in Abilene, Kansas, where greyhounds throughout the United States compete.

TEXAS QUARTER HORSE ASSOCIATION

High hopes marked the beginning of 2011 with the opening of the 82nd Legislative Session. Texas HORSE, an organization representing all breeds and disciplines of horses in Texas, worked to educate legislators about problems facing the Texas equine industry. Texas HORSE organized a "Horsemen's Day at the Capitol" and more than 1,000 people attended. The industry continues to conduct business at a competitive disadvantage with neighboring states.

Accredited Texas-bred Quarter Horses competed at the highest level across the country. Sure Shot B captured the Grade I Texas Classic Futurity at Lone Star Park in November. The Texas Classic is the richest race in Texas. The nineteenth running featured a purse exceeding \$1.2 million, the largest ever.

Sure Shot B was also named accredited Texas-bred Champion Two-Year-Old Gelding. Another very impressive Texas-bred two-year-old, Sixes Streak, captured the Grade I Dash For Cash Futurity, also at Lone Star Park. Both Sure Shot B and Sixes Streak were nominated for World Champion Geldings of the year.

After a three-year hiatus, Quarter Horse racing made a successful return to Retama Park in Selma. Crowds often exceeded 4,000 people during the meet. Retama Park hosted the Texas Quarter Horse Association "Summer Showdown" and TQHA Yearling Sale Futurity for the first time.

TQHA Yearling Sale moved to the Freeman Arena at the AT&T Center in San Antonio, Texas. Sale average, median and totals increased over the 2010 sale even though there was a 24 percent reduction in consignments.

TQHA sale graduate the accredited Texas-bred Triple Vodka remained undefeated when he outran a very talented field to win the TQHA Yearling Sale Futurity. Triple Vodka was also named accredited Texas-bred Champion Two-Year-Old Colt.

TEXAS PAINT HORSE BREEDERS ASSOCIATION

The Texas Paint Horse Breeders Association continued to promote Texas breeding and the Accredited Texas-bred program in 2011. The Accredited Texas-bred program dispersed more than \$26,000 to owners and breeders.

Lone Star Park continues to support the TPHBA. The Grade 1 Lone Star Paint & Appaloosa Futurity remains the richest stakes race in Texas, offering more than \$59,000 in purse money. The Colors of the Alamo Futurity returned to Retama Park, along with a new three-and-up handicap race.

TEXAS THOROUGHBRED ASSOCIATION

The 2011 racing year was a challenging one for the Texas Thoroughbred Association, the recognized state Thoroughbred breed organization. The TTA continued to downsize while fulfilling statutory services and representing its members without the resources of breed organizations in neighbor states.

The TTA designated Rose Mary Chandler's Texas homebred Skip A Smile as the Texas Horse of the Year and Champion Older Male Horse after his four stakes wins in 13 starts. He earned \$262,401 and accumulated 33 Texas Champions Points, highest for any Accredited Texas-bred in 2011.

The TTA provided strong support for the ownership change at Lone Star Park and for Penn National's ownership investment in Sam Houston Race Park and the other two MAXXAM-owned tracks.

The TTA recognized top sprinter Chief of Affairs, bred in Texas by Dr. Jacquelyn Rich, for his third-place finish in Oaklawn Park's prestigious \$200,000 Count Fleet Sprint Handicap. Chief of Affairs was the only ATB horse to place in a graded stakes in 2011.

The TTA celebrated the election of Dr. David Stephens, partner in the Weems & Stephens Equine Clinic in Pilot Point, as the new TTA president succeeding Dr. Rich.

The TTA recognized horses bred by several Texans whose cumulative earnings placed each among North America's top 30. The TTA also recognized several Texas trainers whose animals had cumulative North American earnings to place them in the top 31 nationally.

The TTA recognized Valor Farm stallion Early Flyer, who sired two 2011 Texas Champions in Clarence Scharbauer Jr.'s homebred Sword Trick (2-Year-Old Colt/Gelding) and Tamtastic (3-Year-Old Colt/Gelding), owned by Wayne Sanders and Larry Hirsch. The TTA also recognized the partnership interests of Wayne Sanders and Larry Hirsch as the owners of two 2011 Texas Champions in Taptam (Older Mare) and Tamtastic.

The TTA recognized Lane's End Texas stallion Too Much Bling as the state's leading second-crop sire with cumulative offspring earnings of \$679,153, ranking 31st nationally.

The TTA recognized Valor Farm stallion My Golden Song as the state's leading freshman sire with cumulative offspring earnings of \$187,154, ranking 41st nationally.

TEXAS HORSEMEN'S PARTNERSHIP

The Racing Commission again recognized the Texas Horsemen's Partnership LLP (THP) as the official horsemen's organization to represent racehorse owners and trainers licensed in Texas.

In early 2011, THP's partners — the Texas Thoroughbred HBPA Inc. (TTHBPA) and Texas Horsemen's Benevolent and Protective Association (THBPA) — carried out the election of members to the THP Management Committee. The TTHBPA, representing the Thoroughbred interests, elected Jan Haynes, Dr. Richard Weilburg and Bret Calhoun. The THBPA, representing Quarter Horse interests, elected Dr. Tommy Hays, Ted Abrams and Guy Hopkins. Jan Haynes was re-elected to serve another term as chair of the THP Management Committee.

Terry Blanton, serving Thoroughbred members, and Tooter Jordan, serving Quarter Horse interests, continue as directors of race. Both are closely involved with the horsemen at the racetracks and monitor issues of concern to horsemen.

Marsha Rountree remains in her role as interim executive director, a position she has held for more than two years. Rountree also retains her duties as the controller for THP.

Some of the important issues that THP involved itself with in 2011 included: the Cross Species Global Agreement, race date negotiations, legislative initiatives and the Racing Commission's rule-making process.

The THP's benevolent arm, the Texas Horsemen's Assistance Fund Inc. (THAFI), provided assistance with medical, dental and vision expenses to more than 350 members, as well as funeral cost assistance. THAFI maintained its support of the Racetrack Chaplaincy and LoneStar Outreach to Place Ex-Racers.

THP maintains and operates the Horsemen's Bookkeeper accounts at each track and horsemen have the convenience of an Austin office when the tracks are all dark.

2011 Purse Statistics

Source of Funds	Quarter Horse	Thoroughbred	Arabian	Paint	TOTAL HORSE
Earned Purse	\$4,433,157	\$14,131,654	\$277,135	\$121,400	\$18,963,346
Texas Bred Stakes	\$27,500	\$40,000	\$0	\$0	\$67,500
Stakes	\$3,481,255	\$498,740	\$34,150	\$15,500	\$4,029,645
Sponsors	\$445,388	\$439,106	\$32,500	\$10,305	\$927,299
ATB Sponsored Purse	\$13,894	\$141,850	\$0	\$0	\$155,744
TOTAL PURSES PAID	\$8,401,194	\$15,251,350	\$343,785	\$147,205	\$24,143,534
Average Daily Purses Paid at All Meets	\$95,468	\$125,011	\$11,090	\$49,068	\$85,920

NOTE: Texas Appaloosa Horse Club no longer participates in the Texas-bred Program.

Source of Funds	TOTAL GREYHOUND	Source of Funds	2010 HORSE & GREYHOUND	2011 HORSE & GREYHOUND	% CHANGE
Earned Purse	\$1,235,399	Earned Purse	\$21,369,330	\$20,198,745	-5.48%
Texas Bred Stakes	\$0	Texas Bred Stakes	\$105,000	\$67,500	-35.71%
Stakes	\$50,000	Stakes	\$4,487,437	\$4,079,645	-9.09%
Sponsors	\$86,713	Sponsors	\$827,091	\$1,014,012	22.60%
TGA Cross Species Purse Supplements	\$1,431,505	TGA Cross Species Purse Supplements	\$1,423,042	\$1,431,505	0.59%
TOTAL PURSES PAID	\$2,803,617	ATB Sponsored Purse	\$228,447	\$155,744	-31.82%
Avg. Purses Paid per Performance	\$8,900	TOTAL PURSES PAID	\$28,440,347	\$26,947,152	-5.25%

Summary of All Texas Greyhound Racetracks from 1/1/2011 through 12/31/2011

	Column 1 Live On-Track	Column 2 Live Export	Column 3 Simulcast Same-Species	Column 4 Simulcast Cross-Species	Column 5 Sum of 1 through 4 Total	Column 6 Sum of 1 & 2 Live On-Track & Export Total	Column 7 Sum of 3 & 4 Combined Simulcast Import Total	Column 8 Sum of 1 & 7 Combined On-Track Total
# of Race Days	264	n/a	1,439	1,355	3,058	264	2,794	3,058
# of Performances	315	n/a	12,360	10,689	23,364	315	23,049	23,364
Attendance	121,859	n/a	134,114	291	256,264	121,859	134,405	256,264
Net Handle	\$10,465,803	\$13,702,143	\$27,225,361	\$23,167,970	\$74,561,278	\$24,167,946	\$50,393,332	\$60,859,135
Horse Purse				\$56,442	\$56,442	\$0	\$56,442	\$56,442
Greyhound Purse		\$54,809	\$814,626	\$138,030	\$1,530,175	\$577,519	\$952,656	\$1,475,366
TTA Purse				\$165,766	\$165,766	\$0	\$165,766	\$165,766
TQHA Purse				\$165,766	\$165,766	\$0	\$165,766	\$165,766
TGA Escrow Purse				\$11,329	\$11,329	\$0	\$11,329	\$11,329
Escrowed Horse Purse				\$964,496	\$964,496	\$0	\$964,496	\$964,496
X Horsemen's Partnership				\$0	\$0	\$0	\$0	\$0
THP Escrow Horse Purse				\$138,042	\$138,042	\$0	\$138,042	\$138,042
Texas Bred				\$178,414	\$433,291	\$0	\$433,291	\$433,291
State Tax			\$254,877	\$289,265	\$561,472	\$0	\$561,472	\$561,472
Hub Fee			\$272,207	\$331,963	\$331,963	\$0	\$331,963	\$331,963
Simulcast Fee			\$738,633	\$968,276	\$1,706,910	\$0	\$1,706,910	\$1,706,910
Racetracks	<u>\$1,812,354</u>	<u>\$418,463</u>	<u>\$4,198,760</u>	<u>\$1,595,211</u>	<u>\$8,024,788</u>	<u>\$2,230,817</u>	<u>\$5,793,971</u>	<u>\$7,606,324</u>
Total Commissions	\$2,335,063	\$473,272	\$6,279,103	\$5,003,000	\$14,090,438	\$2,808,336	\$11,282,103	\$13,617,166
Breakage	\$31,255	\$0	\$41,032	\$81,225	\$153,512	\$31,255	\$122,257	\$153,512

Net LOSS of wagering dollars in Texas as a result of simulcasting at greyhound racetracks:

\$8,332,625 Total Export-Interstate Handle - Out of state locations wagering on Texas greyhound racetracks
\$47,824,668 Total Import-Interstate Handle - Texas greyhound racetracks wagering on out of state racetracks
 -\$39,492,043 Net LOSS of wagering dollars in Texas as a result of simulcasting at greyhound racetracks

Summary of All Texas Horse Racetracks from 1/1/2011 through 12/31/2011

	Column 1 Live On-Track	Column 2 Live Export	Column 3 Simulcast Same-Species	Column 4 Simulcast Cross-Species	Column 5 Sum of 1 through 4 Total	Column 6 Sum of 1 & 2 Live On-Track & Export Total	Column 7 Sum of 3 & 4 Combined Simulcast Import Total	Column 8 Sum of 1 & 7 Combined On-Track Total
# of Race Days	191	n/a	1,760	2,267	4,218	191	4,027	4,218
# of Performances	191	n/a	23,825	12,480	36,496	191	36,305	36,496
Attendance	785,893	n/a	487,572	1,471	1,274,936	785,893	489,043	1,274,936
Net Handle	\$29,516,896	\$97,057,984	\$197,032,400	\$31,749,485	\$355,356,765	\$126,574,879	\$228,781,885	\$258,298,781
Horse Purse	\$2,209,151	\$1,307,727	\$14,464,053	\$396,487	\$18,377,418	\$3,516,878	\$14,860,540	\$17,069,691
Greyhound Purse				\$210,266	\$210,266	\$0	\$210,266	\$210,266
TTA Purse					\$0	\$0	\$0	\$0
TQHA Purse					\$0	\$0	\$0	\$0
TGA Purse				\$1,535,720	\$1,535,720	\$0	\$1,535,720	\$1,535,720
Escrowed Horse Purse					\$0	\$0	\$0	\$0
TX Horsemen's Partnership					\$0	\$0	\$0	\$0
THP Escrow Horse Purse					\$0	\$0	\$0	\$0
Texas Bred	\$161,753							
State Tax			\$1,477,688	\$289,392	\$1,928,832	\$161,753	\$1,767,079	\$1,928,832
Hub Fee			\$1,970,176	\$396,487	\$2,366,662	\$0	\$2,366,662	\$2,366,662
Simulcast Fee			\$7,693,424	\$418,678	\$418,678	\$0	\$418,678	\$418,678
Racetracks	\$3,773,945	\$2,204,575	\$16,589,603	\$911,184	\$8,604,608	\$0	\$8,604,608	\$8,604,608
Total Commissions	\$6,144,849	\$3,512,302	\$42,194,943	\$3,182,576	\$25,750,699	\$5,978,520	\$19,772,180	\$23,546,124
				\$7,340,789	\$59,192,883	\$9,657,150	\$49,535,733	\$55,680,581
Breakage	\$200,260	\$0	\$694,567	\$55,472	\$950,298	\$200,260	\$750,038	\$950,298

Net LOSS of wagering dollars in Texas as a result of simulcasting at horse racetracks:

\$91,982,547	Total Export-Interstate Handle - Out of state locations wagering on Texas horse racetracks
\$220,885,211	Total Import-Interstate Handle - Texas Horse racetracks wagering on out of state racetracks
-\$128,902,664	Net LOSS of wagering dollars in Texas as a result of simulcasting at horse racetracks

Summary of All Texas Racetracks from 1/1/2011 through 12/31/2011

	Column 1 Live On-Track	Column 2 Live Export	Column 3 Simulcast Same-Species	Column 4 Simulcast Cross-Species	Column 5 Sum of 1 through 4 Total	Column 6 Sum of 1 & 2 Live On-Track & Export Total	Column 7 Sum of 3 & 4 Combined Simulcast Import Total	Column 8 Sum of 1 & 7 Combined On-Track Total
# of Race Days	455	n/a	3,199	3,622	7,276	455	6,821	7,276
# of Performances	506	n/a	36,185	23,169	59,860	506	59,354	59,860
Attendance	907,752	n/a	621,686	1,762	1,531,200	907,752	623,448	1,531,200
Net Handle	\$39,982,699	\$110,760,127	\$224,257,761	\$54,917,456	\$429,918,043	\$150,742,826	\$279,175,217	\$319,157,916
Horse Purse	\$2,209,151	\$1,307,727	\$14,464,053	\$452,928	\$18,433,859	\$3,516,878	\$14,916,981	\$17,126,133
Greyhound Purse	\$522,710	\$54,809	\$814,626	\$348,296	\$1,740,440	\$577,519	\$1,162,922	\$1,685,632
TTA Purse	\$0	\$0	\$0	\$165,766	\$165,766	\$0	\$165,766	\$165,766
TQHA Purse	\$0	\$0	\$0	\$165,766	\$165,766	\$0	\$165,766	\$165,766
TGA Purse	\$0	\$0	\$0	\$1,547,049	\$1,547,049	\$0	\$1,547,049	\$1,547,049
Escrowed Horse Purse	\$0	\$0	\$0	\$964,496	\$964,496	\$0	\$964,496	\$964,496
X Horsemen's Partnership	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
THP Escrow Horse Purse	\$0	\$0	\$0	\$138,042	\$138,042	\$0	\$138,042	\$138,042
Texas Bred	\$161,753	\$0	\$1,732,564	\$467,806	\$2,362,123	\$161,753	\$2,200,370	\$2,362,123
State Tax	\$0	\$0	\$2,242,382	\$685,752	\$2,928,134	\$0	\$2,928,134	\$2,928,134
Hub Fee	\$0	\$0	\$0	\$750,641	\$750,641	\$0	\$750,641	\$750,641
Simulcast Fee	\$0	\$0	\$8,432,057	\$1,879,460	\$10,311,517	\$0	\$10,311,517	\$10,311,517
Racetracks	\$5,586,298	\$2,623,038	\$20,788,363	\$4,777,787	\$33,775,487	\$8,209,337	\$25,566,150	\$31,152,449
Total Commissions	\$8,479,912	\$3,985,574	\$48,474,046	\$12,343,789	\$73,283,321	\$12,465,486	\$60,817,835	\$69,297,747
Breakage	\$231,515	\$0	\$735,599	\$136,696	\$1,103,810	\$231,515	\$872,295	\$1,103,810

Net LOSS of wagering dollars in Texas as a result of simulcasting at Texas racetracks:

\$100,315,172	Total Export-Interstate Handle - Out of state locations wagering on Texas racetracks
\$268,709,880	Total Import-Interstate Handle - Texas racetracks wagering on out of state racetracks
-\$168,394,707	Net LOSS of wagering dollars in Texas as a result of simulcasting

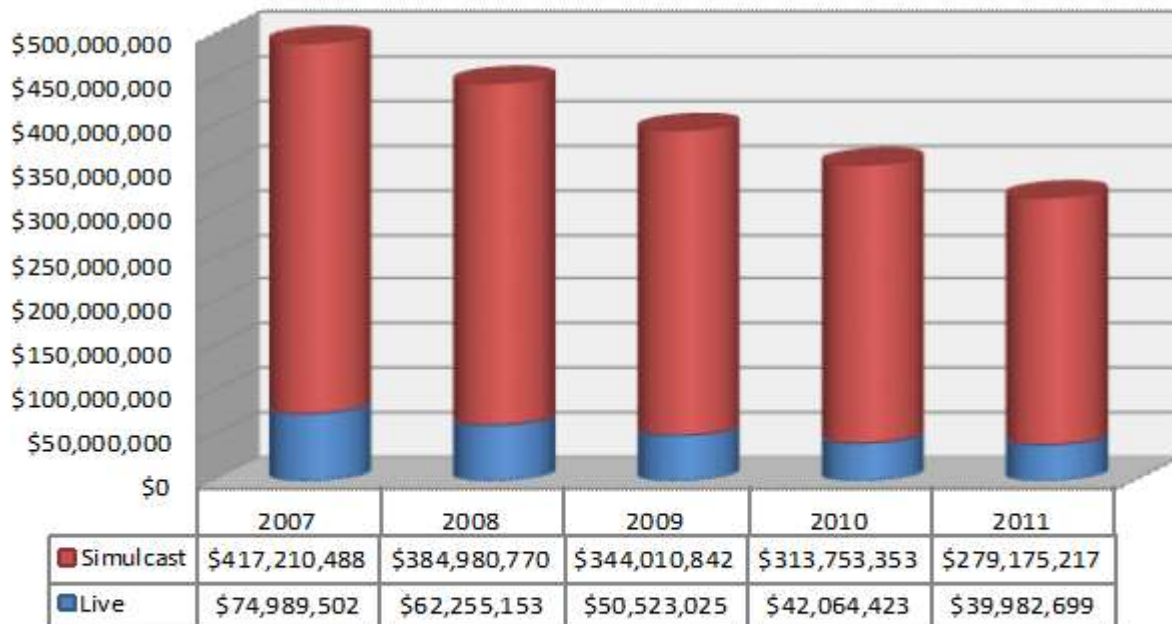
Five-Year Overview of Pari-Mutuel Racing Greyhound & Horse Tracks Combined

	2007	2008	2009	2010	2011
# of Operating Tracks	8	7	8	8	7
Handle On-Track:					
Live	\$74,989,502	\$62,255,153	\$50,523,025	\$42,064,423	\$39,982,699
Simulcast	\$417,210,488	\$384,980,770	\$344,010,842	\$313,753,353	\$279,175,217
TOTAL	\$492,199,990	\$447,235,923	\$394,533,867	\$355,817,776	\$319,157,916
Live Performances	1,255	733	578	567	506
# of Simulcast Signals Taken	67,727	58,119	61,264	59,418	59,354
Purses Paid	\$41,664,542	\$38,673,756	\$33,634,795	\$28,440,346	\$26,947,152
State Tax	\$4,351,865	\$4,009,199	\$3,591,738	\$3,290,455	\$2,928,134
Tx Bred \$	\$5,214,149	\$4,758,559	\$4,323,299*	\$3,843,854**	\$3,390,338
Attendance	2,276,747	2,270,483	2,140,925	1,716,877	1,531,200

*The 2009 'Tx Bred \$' figure was updated July 7, 2010, from the figure originally reported in the January 31, 2010, Annual Report.

**The 2010 'Tx Bred \$' figure was updated March 8, 2011, from the figure originally reported in the January 31, 2011, Annual Report.

On-Track Handle Greyhound & Horse Combined



**Data on this page provided by Gulf Coast Racing
For Calendar Year 1/1/2011– 12/31/2011**

Average # of Employees/Positions on Payroll	26
Total Salaries and Wages Paid	\$365,369
Total State Pari-mutuel Tax Paid	\$124,739
Total Other State Taxes Paid	\$132,379
Total Property Taxes Paid	\$99,046
Total Purchased Goods and Services	\$986,564
Total Charitable Contributions	\$5,100

2011 Highlights



Gulf Coast Racing played civic host to several non-profit groups throughout 2011.



The Hispanic Chamber of Commerce held their annual Casino Night and Auction at Gulf Coast Racing. The event drew approximately 400 people.



Crime Stoppers of Corpus Christi hosted a Christmas dinner at Gulf Coast Racing for underprivileged children. Approximately 600 children received dinner and presents.



CEO by the Bay held its State Championship Barbeque Cook-Off at Gulf Coast Racing to raise money for local scholarships. Approximately 16,000 people attended the function held in the parking lot.



The Corpus Christi Builders Association held a Casino Night at the track to raise scholarship money.



Beautify Corpus Christi held a wine tasting and silent auction at Gulf Coast Racing to raise money for local projects.

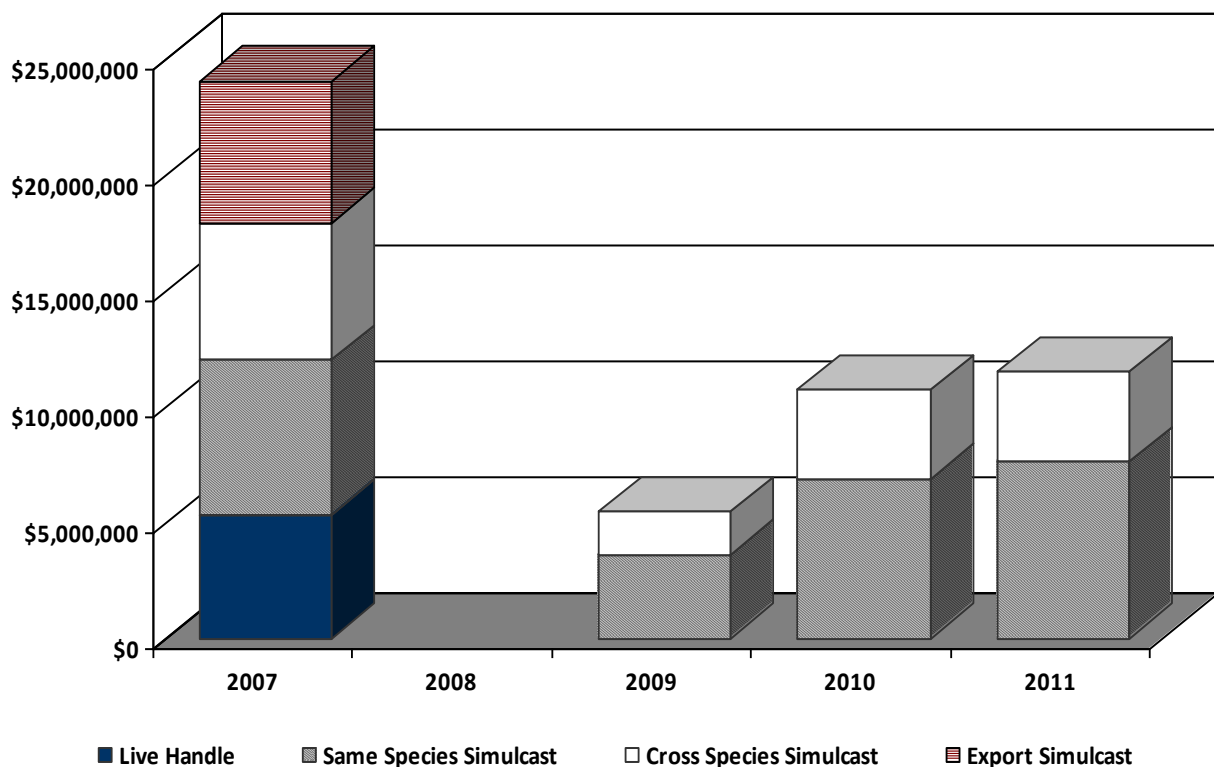


The Junior League of Corpus Christi held its 1st Annual 5K Mud Run at the track to raise money for local projects.

Greyhound Racetrack
Gulf Coast Racing
 (formerly Corpus Christi Greyhound Race Track)

	2010	2011	% Change
Live On-Track Handle	\$0	\$0	N/A
Import Same Species Simulcast	\$6,901,147	\$7,639,089	10.69%
Import Cross Species Simulcast	\$3,814,334	\$3,867,860	1.40%
Total On-Track Handle	\$10,715,481	\$11,506,948	7.39%
Total Export Handle	\$0	\$0	N/A
Total Wagered on GCR	\$0	\$0	N/A
Average Value per Point	\$0.00	\$0.00	N/A
Average Purses Paid/Performance	\$0	\$0	N/A
Total Purses Paid	\$0	\$0	N/A
Total Live Performances	0	0	N/A
Total # of Simulcast Signals Taken	5,736	5,467	-4.69%
Total Attendance	41,036	40,678	-0.87%

2007-2011
Gulf Coast Racing



*Corpus Christi Greyhound Race Track ceased pari-mutuel operations on December 31, 2007.

*Under new ownership, Gulf Coast Racing resumed pari-mutuel operations on July 3, 2009.



**Data on this page provided by Gulf Greyhound Park
For Calendar Year 1/1/2011– 12/31/2011**

Average # of Employees/Positions on Payroll	192
Total Salaries and Wages Paid	\$2,810,924
Total State Pari-mutuel Tax Paid	\$282,947
Total Other State Taxes Paid	\$83,892
Total Property Taxes Paid	\$253,899
Total Purchased Goods and Services	\$4,308,133
Total Charitable Contributions	\$31,189

2011 Highlights



Gulf Greyhound Park sponsored the 2011 Run for the Fallen. On the weekend of August 20 and 21, 2011, more than 7,000 people in 32 states and two countries ran more than 39,352 miles in honor and remembrance of service members killed in Operation Iraqi Freedom and Operation Enduring Freedom. Beginning Flag Day, June 14, 2008, a dedicated team ran across America from Fort Irwin, California to Arlington National Cemetery, one mile for every Soldier, Sailor, Airmen and Marine killed in OIF and OEF. For ten weeks, team members marked each mile with an American flag and signcard in an apolitical reflection of remembrance of each service member. Each year since the original 2008 event, runners from around the world have joined Run for the Fallen, collectively covering more than 150,000 miles.



The \$50,000 Texas Round-Up saw DLT Firewater take first place.



Cry Homer set a new track record on May 14, 2011, clocking in at 29.42 seconds.

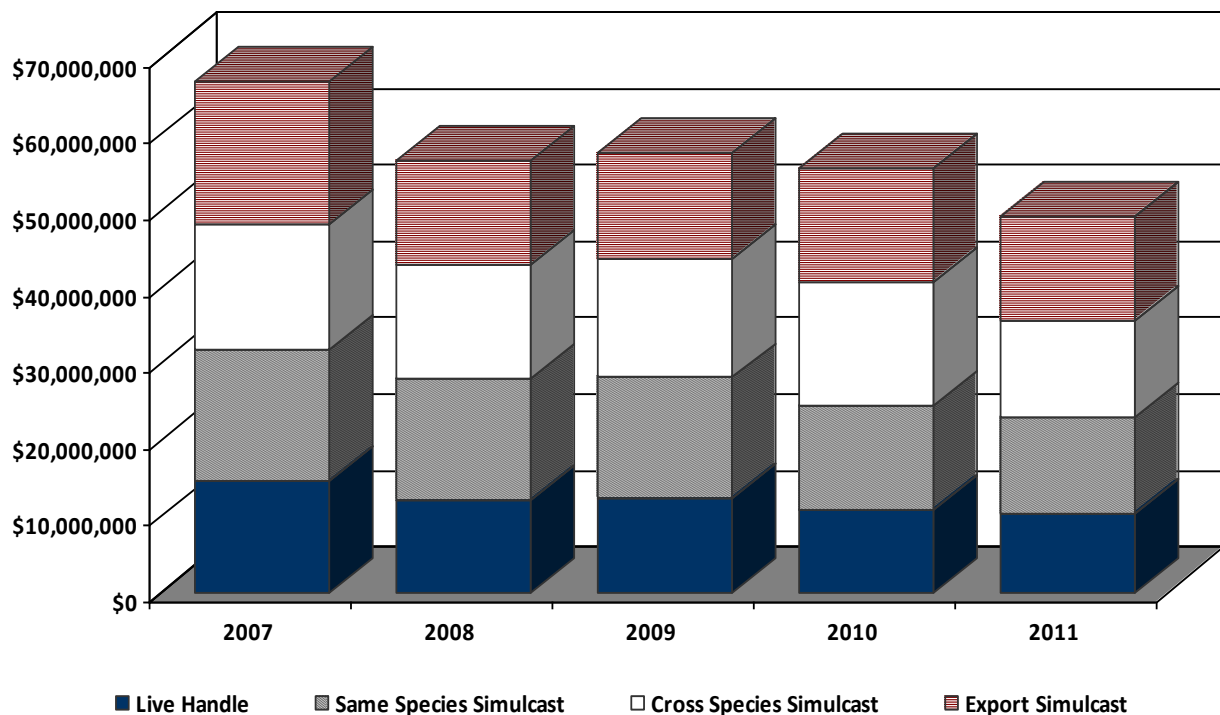


Gulf Greyhound Park saw the largest carryover jackpot in 10 years when the Late Tri Super Jackpot reached an astounding \$123,000 before being hit.

Greyhound Racetrack Gulf Greyhound Park

	2010	2011	% Change
Live On-Track Handle	\$10,855,337	\$10,275,169	-5.34%
Import Same Species Simulcast	\$13,459,909	\$12,611,793	-6.30%
Import Cross Species Simulcast	\$16,307,686	\$12,546,334	-23.06%
Total On-Track Handle	\$40,622,931	\$35,433,296	-12.78%
Total Export Handle	\$14,908,089	\$13,702,143	-8.09%
Total Wagered on GULF	\$25,763,426	\$23,977,312	-6.93%
Average Value per Point	\$75.92	\$65.68	-13.49%
Average Purses Paid/Performance	\$8,316	\$8,272	-0.52%
Total Purses Paid	\$2,902,158	\$2,564,379	-11.64%
Total Live Performances	349	310	-11.17%
Total # of Simulcast Signals Taken	7,910	8,057	1.86%
Total Attendance	171,628	157,317	-8.34%

**2007-2011
Gulf Greyhound Park**





**Data on this page provided by Valley Race Park
For Calendar Year 1/1/2011 – 12/31/2011**

Average # of Employees/Positions on Payroll	50
Total Salaries and Wages Paid	\$717,992
Total State Pari-mutuel Tax Paid	\$146,151
Total Other State Taxes Paid	\$0
Total Property Taxes Paid	\$57,040
Total Purchased Goods and Services	\$1,078,374
Total Charitable Contributions	\$9,575

2011 Highlights

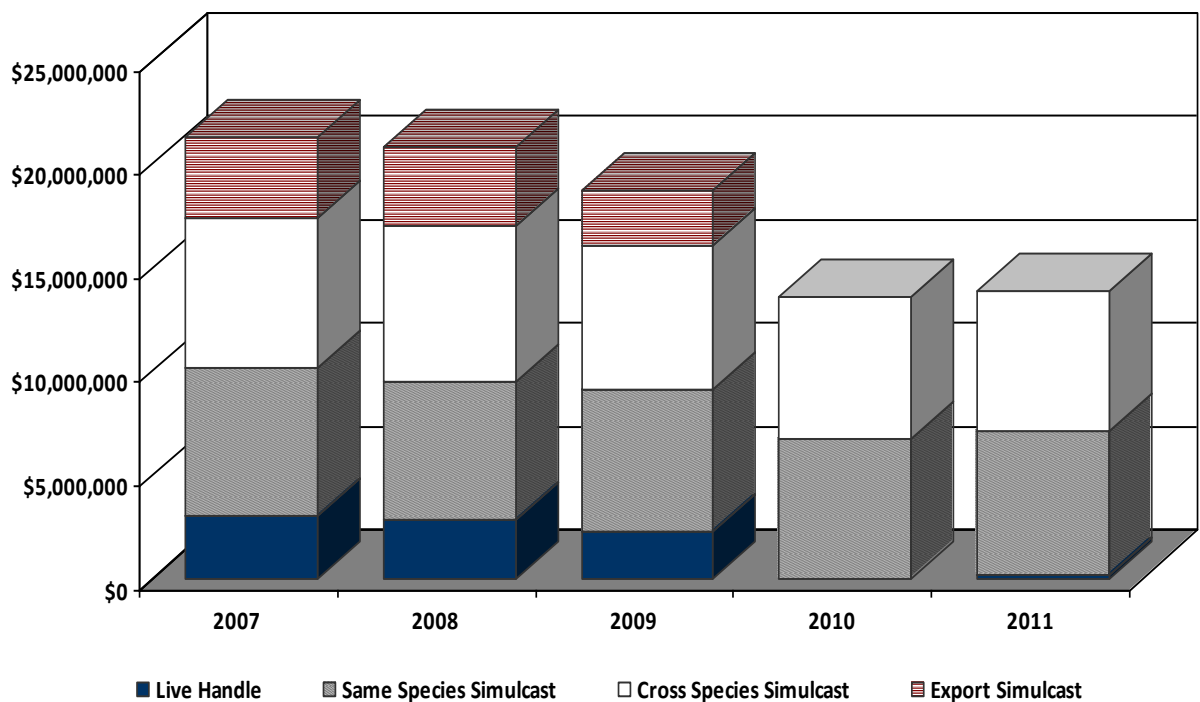


Valley Race Park held a five-day Festival of Racing meet the last weekend in November and the first weekend in December. The meet was considered a success as total on-track handle, including simulcasting, increased over the same period during 2010 by \$291,660.

Greyhound Racetrack Valley Race Park

	2010	2011	% Change
Live On-Track Handle	\$0	\$190,634	N/A
Import Same Species Simulcast	\$6,711,388	\$6,974,479	3.92%
Import Cross Species Simulcast	\$6,919,370	\$6,753,777	-2.39%
Total On-Track Handle	\$13,630,758	\$13,918,890	2.11%
Total Export Handle	\$0	\$0	N/A
Total Wagered on VGP	\$0	\$190,634	N/A
Average Value per Point	\$0.00	\$428.56	N/A
Average Purses Paid/Performance	\$0	\$47,848	N/A
Total Purses Paid	\$0	\$239,238	N/A
Total Live Performances	0	5	N/A
Total # of Simulcast Signals Taken	9,297	9,525	2.45%
Total Attendance	59,018	58,269	-1.27%

**2007-2011
Valley Race Park**



*Valley Race Park did not request live race dates for 2010.



**Data on this page provided by Lone Star Park at Grand Prairie
For Calendar Year 1/1/2011 – 12/31/2011**

Average # of Employees/Positions on Payroll	300 off-season/900 live racing
Total Salaries and Wages Paid (includes benefits)	\$11,892,580
Total State Pari-mutuel Tax Paid	\$970,213
Total Other State Taxes Paid	\$1,324,239
Total Property Taxes Paid	\$2,384,041
Total Purchased Goods and Services	\$9,889,804
Total Charitable Contributions	\$60,680

2011 Highlights



The 15th Thoroughbred Season at Lone Star Park marked the transition to new ownership under Global Gaming Solutions.



Opening weekend festivities included performances by the Randy Rogers Band and Ted Nugent, leading to the sixth largest opening weekend attendance since the track first opened for live racing in 1997 and the largest since 2004.



Lone Star Park ended its 52-day, 2011 Spring Thoroughbred Meeting with a 10 percent increase in average daily attendance. This was the largest average daily attendance increase in track history. Overall, 396,281 fans attended live Thoroughbred racing in 2011.



Average daily on-track wagering showed a positive gain of 4 percent from the previous year. Average daily wagering on the live product declined 5 percent.



The Kentucky Oaks Day saw the largest Oaks Day attendance in the track's history with a total of 14,379 fans coming through the doors. Add in the 16,470 that attended Kentucky Derby Day and the total represents the third highest attendance for Oaks-Derby weekend in track history.



Attendance for the 2011 Fall Meeting of Champions showed a slight increase over 2010 with a total of 76,085 fans for the 26-day meeting.

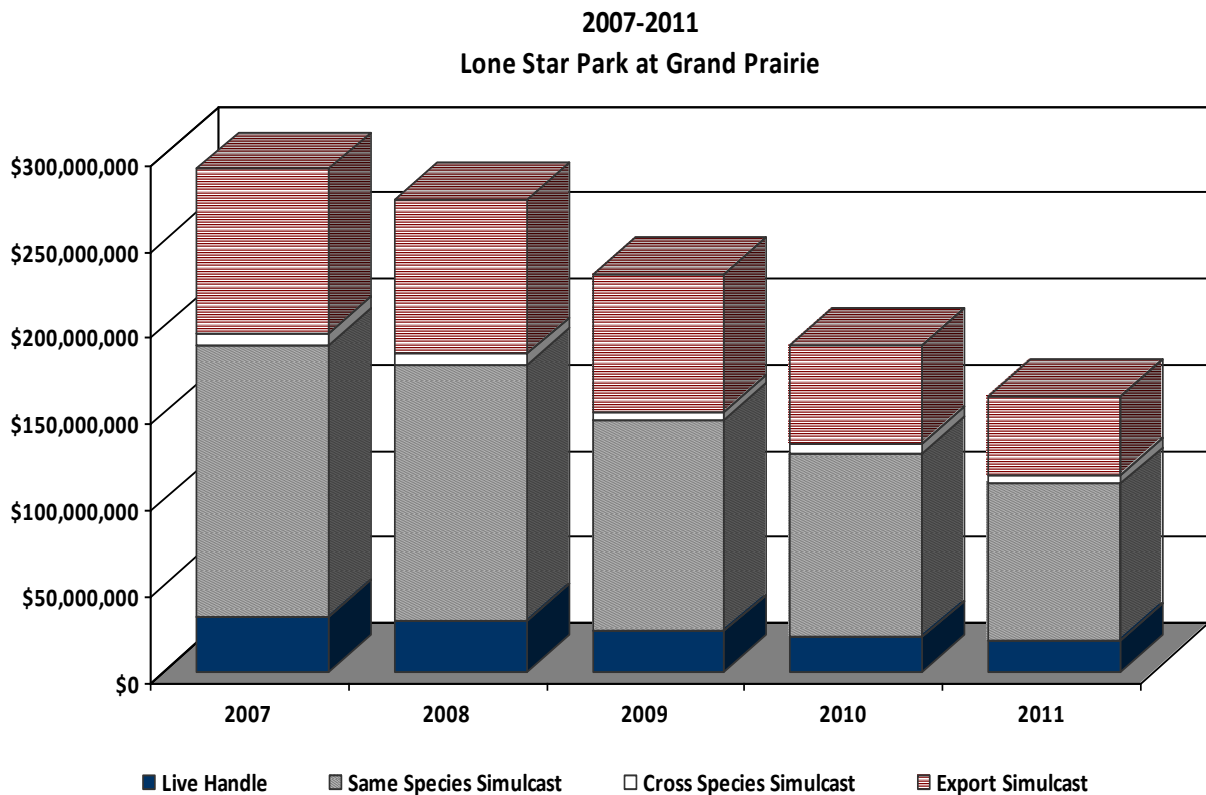


Trainer Trey Wood compiled 20 victories during the 2011 Fall Meeting of Champions to clinch his third straight training title. The leading rider for the fourth straight year was Ricky Ramirez with 32 wins. Texas Classic Futurity winner Sure Shot B was named Horse of the Meet.

Class 1 Horse Racetrack

Lone Star Park at Grand Prairie

	2010	2011	% Change
Live On-Track Handle	\$19,851,794	\$18,018,110	-9.24%
Import Same Species Simulcast	\$106,925,127	\$90,906,017	-14.98%
Import Cross Species Simulcast	\$5,819,114	\$4,892,232	-15.93%
Total On-Track Handle	\$132,596,035	\$113,816,359	-14.16%
Total Export Handle	\$56,742,547	\$45,445,767	-19.91%
Total Wagered on LSP	\$76,594,341	\$63,463,876	-17.14%
Average Purses Paid/Quarter Horse	\$132,434	\$125,131	-5.51%
# of Quarter Horse Race Dates	26	26	0.00%
Average Purses Paid/Thoroughbred	\$150,871	\$161,671	7.16%
# of Thoroughbred Race Dates	60	52	-13.33%
Total Purses Paid	\$12,665,121	\$11,823,797	-6.64%
Total Live Performances	86	78	-9.30%
Total # of Simulcast Signals Taken	8,643	9,643	11.57%
Total Attendance	690,537	661,489	-4.21%





**Data on this page provided by Retama Park
For Calendar Year 1/1/2011 – 12/31/2011**

Average # of Employees/Positions on Payroll	191
Total Salaries and Wages Paid	\$4.2 million
Total State Pari-mutuel Tax Paid	\$442,500
Total Other State Taxes Paid	\$245,500
Total Property Taxes Paid	N/A (Tax Exempt)
Total Purchased Goods and Services	\$4.7 million
Total Charitable Contributions	\$47,000 cash and in-kind donations

2011 Highlights



Live American Quarter Horse racing returned to Retama Park after a two-year hiatus. More than 5,000 exuberant fans attended opening night. The Mixed Meet and Thoroughbred Meet followed without a break.



Karl Broberg won leading trainer honors in the Thoroughbred Meet with 20 wins and Larry Taylor won the leading jockey title. During the Quarter Horse Meet, Luis Ramirez captured leading rider honors with 35 wins while the leading trainer standings finished in a tie between Judd Kearn and Eusevio Huitron with 13 wins each.



Long-time sponsorship partner M2 Technology continued their support of the showcase race at Retama Park, the \$75,000 M2 Technology La Senorita. Offered most every weekend of the live meet, 50¢ night promotions remained a staple for families and young adults seeking value-oriented entertainment.



Again in 2011, Retama Park had the honor of partnering with Operation Homefront of Texas — a local organization providing assistance to military families with parents serving overseas — for two very special projects. Volunteers from throughout the community gathered at Retama to help assemble and prepare backpacks in August for “Operation Hope.” In December, “Operation Jolly Holly” volunteers assembled Christmas stockings. These backpacks and stockings were distributed to children of military families with parents serving overseas. Retama Park donated the entire clubhouse level of the facility and staff to support these wonderful causes.

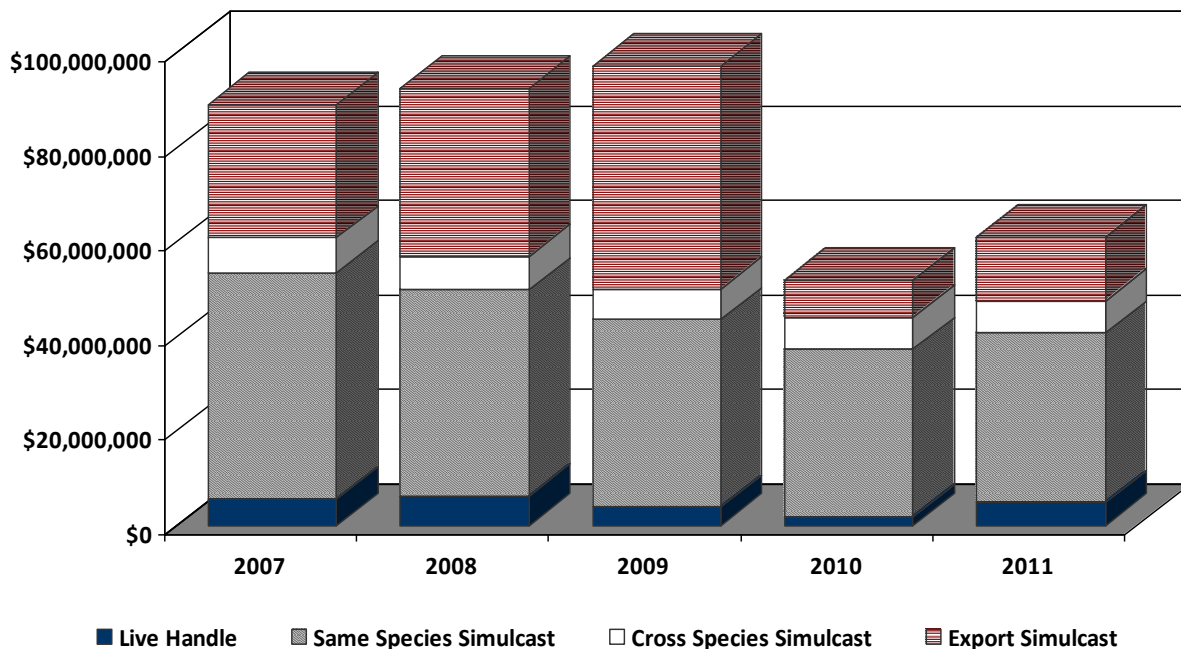


Retama Park and the Racetrack Chaplaincy hosted parties at Thanksgiving and Christmas for backside personnel and their families. More than 120 people received Thanksgiving dinner. At Christmas, 160 people were served dinner and 45 children received gifts — donated by the Will Smith Foundation — from Santa Claus.

Class 1 Horse Racetrack Retama Park

	2010	2011	% Change
Live On-Track Handle	\$1,838,249	\$4,881,762	165.57%
Import Same Species Simulcast	\$35,421,792	\$35,847,100	1.20%
Import Cross Species Simulcast	\$6,778,456	\$6,719,992	-0.86%
Total On-Track Handle	\$44,038,497	\$47,448,854	7.74%
Total Export Handle	\$7,830,096	\$13,534,832	72.86%
Total Wagered on Retama	\$9,668,345	\$18,416,594	90.48%
Average Purses Paid/Quarter Horse	\$0	\$68,200	N/A
# of Quarter Horse Race Dates	0	10	N/A
Average Purses Paid/Thoroughbred	\$103,781	\$108,196	4.25%
# of Thoroughbred Race Dates	16	23	43.75%
Total Purses Paid	\$1,738,100	\$4,734,946	172.42%
Average Thoroughbred Purse - Mixed Meet	\$0	\$12,507	N/A
Average Quarter Horse Purse - Mixed Meet	\$0	\$90,414	N/A
# of Mixed Race Dates	0	14	N/A
Total Live Performances	16	47	193.75%
Total # of Simulcast Signals Taken	8,680	9,793	12.82%
Total Attendance	187,042	262,436	40.31%

**2007-2011
Retama Park**





LET'S MAKE THINGS INTERESTING.

**Data on this page provided by Sam Houston Race Park
For Calendar Year 1/1/2011 – 12/31/2011**

Average # of Employees/Positions on Payroll	287
Total Salaries and Wages Paid	\$5,853,582
Total State Pari-mutuel Tax Paid	\$666,112
Total Other State Taxes Paid	\$519,777
Total Property Taxes Paid	\$851,617
Total Purchased Goods and Services	\$17,683,219
Total Charitable Contributions (Cash and Like-Kind)	\$113,418

2011 Highlights



In early 2011, Sam Houston Race Park's parent company MAXXAM entered into a joint venture operating agreement with Penn National Gaming, owners/operators of 26 gaming and racing facilities in 18 jurisdictions. Penn National is the largest operator of pari-mutuel facilities in North America, conducting more than 1,200 annual racing performances generating nearly \$1 billion in total annual handle.



Sam Houston Race Park modified its meet in 2011 and for the first time allowed daily purses of \$160,000, the highest average per day since the track opened in 1994. By shortening the meet, Sam Houston Race Park increased purses by 58% and attracted top caliber talent — Breeder's Cup Champion Chamberlain Bridge; Grade 1 Champion Stately Victor; and the impressive winner of the Grade 3 Connally Turf Cup, Schramsberg, who was also honored as the Horse of the Meet — from across the nation. Sam Houston Race Park also offered Monday afternoon racing, continuing what started in 2010. As one of the only tracks offering live racing on Mondays, Sam Houston Race Park has filled a niche and seized an opportunity to increase handle.



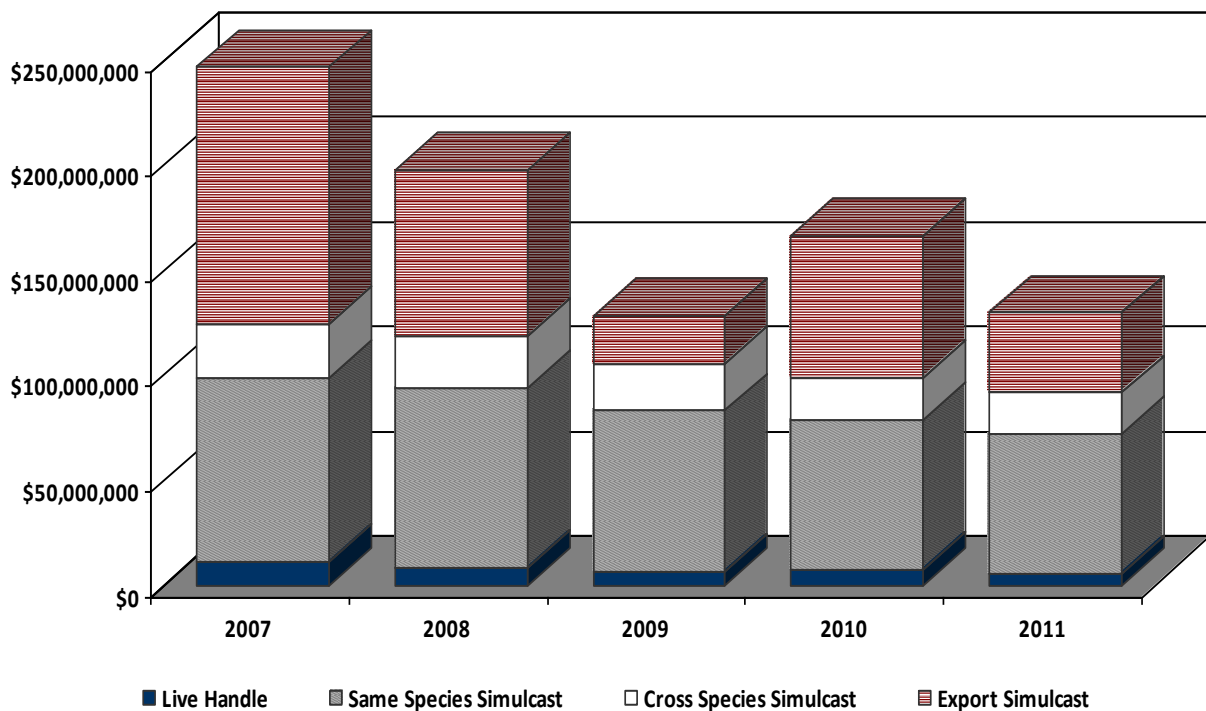
Pandorum, a 2-year-old filly bred and owned by prominent Texas horseman Joe Kirk Fulton, was named Horse of the Meet for the 2011 Sam Houston Race Park Quarter Horse meet. The precocious and immensely talented filly won both of her races during the meet that concluded on March 15. Pandorum joined a long and celebrated list of American Quarter Horse standouts that have run at Sam Houston Race Park.

Class 1 Horse Racetrack

Sam Houston Race Park

	2010	2011	% Change
Live On-Track Handle	\$7,205,400	\$5,371,018	-25.46%
Import Same Species Simulcast	\$71,708,107	\$66,611,214	-7.11%
Import Cross Species Simulcast	\$20,167,787	\$19,748,700	-2.08%
Total On-Track Handle	\$99,081,295	\$91,730,932	-7.42%
Total Export Handle	\$67,008,265	\$38,077,385	-43.18%
Total Wagered on SHRP	\$74,213,665	\$43,448,403	-41.45%
Average Purses Paid/Quarter Horse	\$83,038	\$86,980	4.75%
# of Quarter Horse Race Dates	45	30	-33.33%
Average Purses Paid/Thoroughbred	\$93,524	\$150,074	60.47%
# of Thoroughbred Race Dates	49	27	-44.90%
Total Purses Paid	\$8,572,264	\$6,858,341	-19.99%
Total Live Performances	94	57	-39.36%
Total # of Simulcast Signals Taken	13,180	13,543	2.75%
Total Attendance	521,633	336,449	-35.50%

2007-2011
Sam Houston Race Park





RACE BARN

THE HILL COUNTRY'S PLACE TO PLAY

**Data on this page provided by Gillespie County Fair & Festivals Association
For Calendar Year 1/1/2011– 12/31/2011**

Average # of Employees/Positions on Payroll	112
Total Salaries and Wages Paid	\$376,825
Total State Pari-mutuel Tax Paid	\$41,535
Total Other State Taxes Paid	\$17,166
Total Property Taxes Paid*	\$8,962
Total Purchased Goods and Services	\$884,437
Total Charitable Contributions (including in-kind**)	\$109,885

*Property taxes represent those attributable to the Race Barn property only; the Fairgrounds are exempt from property taxes.

**Estimated in-kind to community including facility use and volunteer labor.

2011 Highlights



The Gillespie County Fair live race meet continues to show higher handle with a 2.6 percent increase over 2010.



The Gillespie County Fair & Festivals Association awarded \$15,000 in scholarships to twenty-five 2011 graduating seniors from Gillespie County. Since 1991, more than \$271,000 in scholarships have been awarded to 507 college-bound students.



The Fair Association's donated facility use and volunteer labor was estimated at more than \$108,000 for 2011. The Fair Association consists of more than 46 volunteer directors who, along with their families, provide a variety of events and activities throughout the year for the community. Events and activities include the Gillespie County Fair Parade and the Gillespie County Fair, which culminates in four weekends of live racing. Additional events include the Annual Scholarship Fest and Professional Bull Riding.

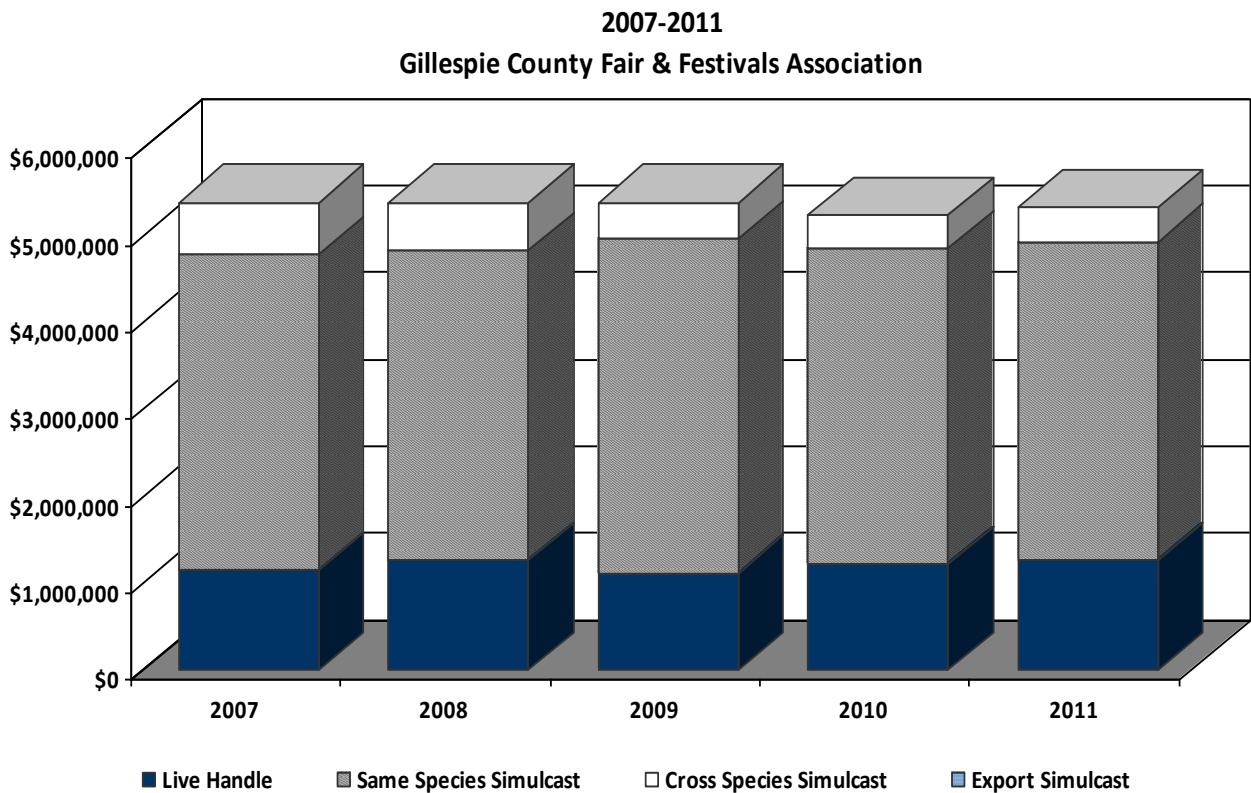


The Gillespie County Fair & Festivals Association hosted the 2nd Annual PBR recognizing active and retired military, firefighters and law enforcement personnel.

Class 3 Horse Racetrack

Gillespie County Fair & Festivals Association

	2010	2011	% Change
Live On-Track Handle	\$1,212,932	\$1,246,006	2.73%
Import Same Species Simulcast	\$3,622,192	\$3,668,069	1.27%
Import Cross Species Simulcast	\$392,764	\$388,560	-1.07%
Total On-Track Handle	\$5,227,888	\$5,302,636	1.43%
Total Export Handle	\$0	\$0	N/A
Total Wagered on GCF	\$1,212,932	\$1,246,006	2.73%
Average Purses Paid/Quarter Horse	\$66,475	\$73,825	11.06%
Average Purses Paid/Thoroughbred	\$17,275	\$18,407	6.55%
# of Mixed Race Dates	8	8	0.00%
Total Purses Paid	\$675,440	\$726,450	7.55%
Total Live Performances	8	8	0.00%
Total # of Simulcast Signals Taken	3,409	3,326	-2.43%
Total Attendance	14,635	14,562	-0.50%



OTHER LICENSED CLASS 2 RACETRACKS

AUSTIN JOCKEY CLUB

In 1999, Austin Jockey Club, Ltd., acquired majority ownership of Longhorn Downs, Inc., which held a horse racetrack license originally issued in 1989.

From 1999 until 2005, AJC presented two potential Austin-area racetrack locations. The Commission approved the first location, but the site subsequently became infeasible due to city zoning changes. The Commission did not approve the second proposed location due to traffic problems at the site. In December 2005, AJC notified the Commission that it had entered into a contract to sell its ownership interests in Longhorn Downs. In 2006, the proposed new owners of AJC, Dallas City Limits, presented a general overview of plans to locate the racetrack in the Dallas area, noting that the details of the transaction and location would be submitted in the near future. Dallas City Limits submitted its formal proposal in 2007. After delays caused by litigation between its two general partners, Dallas City Limits submitted a revised application in 2008.

After the DPS and Racing Commission staff review, the Commission denied AJC's request for a change of ownership to Dallas City Limits at its September 2009 meeting. The Commission chairman at that time, Rolando Pablos, directed the current owners of AJC to fulfill their commitment to the Commission with respect to the license and either bring a new proposal for a change in ownership and new location or bring forward a location and business plan for constructing a facility. In the absence of such action, the license may have been subject to revocation hearings.

At the October 2009 Commission meeting, AJC requested and was granted 12 race dates in July and August of 2011. AJC failed to conduct these race dates.

AJC submitted a formal application for a change in ownership and location on August 3, 2010. The proposed new ownership group plans to move the track location to Creedmoor, just outside of Austin.

At the September 2011 Commission meeting, AJC requested and was granted 18 race dates in July and August of 2012.

As of the end of 2011, DPS and staff had finalized the review of the application. The proposed change of ownership and location is scheduled for Commission consideration at its first meeting in 2012.

LAREDO DOWNS

On March 20, 2007, the Commission granted a Class 2 horse racetrack license to Laredo Downs. At its May 2007 meeting, the Commission ordered security be posted to ensure compliance with the Racing Act and the Rules of Racing. Laredo Downs posted security and agreed to a schedule that called for simulcasting to begin on or before January 1, 2009, and the facility to be ready for live racing on or before July 1, 2009.

Laredo Downs did not meet the requirements to begin simulcasting or live racing by its agreed-to dates in 2009. The track forfeited its security bond in accordance with the order.

At the October 2009 Commission meeting, Laredo Downs requested and was granted 10 race dates in August of 2011. Laredo Downs failed to conduct these race dates.

On October 27, 2010, the Commission received a request to move the track's location to Fort Worth. The request was withdrawn in late 2011.

LAREDO RACE PARK

At its August 2007 meeting, the Commission awarded a Class 2 license to Laredo Race Park and required security be posted to ensure compliance with the Racing Act and Commission rules. Laredo Race Park posted security and agreed to a schedule that called for simulcasting to begin on or before July 15, 2009, and the facility to be ready for live racing on or before December 1, 2009.

Laredo Race Park did not meet the requirements to begin simulcasting or live racing by its agreed-to dates in 2009. In addition to the 2009 dates, Laredo Race Park had two granted live race dates in 2010. Although the Commission was set to consider Laredo Race Park's request for an amendment to the security bond at its December 2009 meeting that would have waived the forfeiture of the security bond, Laredo Race Park officials asked for additional time to focus on its plan to negotiate an agreement with Webb County officials to move the racetrack site to a county-owned golf course. According to a Laredo Race Park representative, subsequent to having acquired access to the new property, Laredo Race Park would submit a request for change in location and request a change in the terms of the security order.

At the September 2009 Commission meeting, Laredo Race Park requested and was granted eight race dates in August of 2011. Laredo Race Park failed to conduct these race dates.

Ultimately, Laredo Race Park voluntarily surrendered its security bond. Subsequently, the proposed agreement with Webb County to put the track at the county-owned golf course failed. On December 20, 2010, MAXXAM Inc., parent company of Sam Houston Race Park, Valley Race Park and Laredo Race Park, submitted a request to change 50 percent of the ownership in these licenses to Penn National Gaming. The Commission approved that request in April 2011.

At the September 2011 Commission meeting, a Laredo Race Park official reported that although the option for the approved location was extended, they would continue to look for an alternative site that would lower the total project development costs. Also at this meeting, Laredo Race Park requested and was granted 8 race dates in August of 2012.

MANOR DOWNS

Manor Downs was licensed in 1989 and ran its first pari-mutuel meet in 1990. Shortly after completing its 2010 live race meet, Manor Downs closed its simulcasting operations in July, citing economic constraints. At the September 2011 Commission meeting, a Manor Downs representative reported they are maintaining the racetrack surface and equipment as they continue to pursue investors.

SADDLE BROOK PARK

In 2001, Yellow Rose Entertainment, d/b/a Saddle Brook Park, acquired Lubbock Downs, Inc., a company to which a Class 2 horse racetrack license was issued in 1989. The Commission granted Saddle Brook Park's request to move the track from Lubbock to Randall County. The new owners indicated their intent to construct the facility and open for live racing and simulcasting in 2002. Construction plans were submitted and approved by the Commission staff in May of 2002. Saddle

Brook Park reported that steel had been ordered when a problem arose with the Environmental Protection Agency over sewage disposal. At the May 2007 Commission meeting, Saddle Brook Park's representative reported some progress was being made on the sewage disposal issue but was unable to give any firm dates for resuming construction or opening the racetrack.

At the September 2009 meeting, Saddle Brook Park requested and was granted 12 race dates in July – August 2011. Saddle Brook Park failed to conduct these race dates. At the October 2009 meeting, Saddle Brook Park's representative reported that the prior EPA problem was no longer an issue with the growth of Amarillo infrastructure.

At the November 16, 2010, Commission meeting, the license holder representative reported that it has a binding contract to sell the license to Global Gaming LSP, LLC. At the end of 2011, the Commission had not yet received a change of ownership request.

VALLE DE LOS TESOROS RACE PARK

On March 20, 2007, the Commission granted a Class 2 horse racetrack license to Valle de los Tesoros Race Park for a Class 2 racetrack in McAllen, Texas. At its May 2007 meeting, the Commission ordered security be posted to ensure compliance with the Racing Act and Commission rules. Valle de los Tesoros posted security and agreed to a schedule that called for simulcasting to begin on or before January 1, 2009, and the facility to be ready for live racing on or before July 1, 2009.

Valle de los Tesoros did not meet the requirements to begin simulcasting or live racing by its agreed-to dates in 2009 and the license holder's security bond was forfeited in accordance with the order.

At the October 2009 Commission meeting, a representative of Valle de los Tesoros noted some progress on obtaining sewer and water for the site.

At the December 2009 Commission meeting, a representative provided a letter from the City of McAllen that reported a verbal agreement had been made with the City of Hidalgo to provide water and sewer services to the racetrack site through an Interlocal Agreement.

At the November 16, 2010, Commission meeting, the license holder expressed an interest in opening a temporary location to begin simulcasting, thus generating purse revenue. An application for approval of a temporary location was filed on May 6, 2011. The location requested was a stand-alone building in a shopping center, approximately 10 miles north of its approved racetrack location and approximately 42 miles from Valley Race Park.

Valley Race Park voiced objection to the site, resubmitting an impact study that it submitted in 2005 during Valle de los Tesoros' original licensing. The study asserted that simulcasting and live racing at Valle de los Tesoros' designated location would result in a drop in handle and revenues at Valley Race Park, with the result that Valley Race Park would likely close due to financial difficulties.

The Commission denied the change of location request at its September 21, 2011, meeting. At this meeting, Valle de los Tesoros' requested and was granted six race dates in August of 2012 and 2013.

APPENDIX

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Combined Statement of Revenues & Expenditures

For Fiscal Year 2011 As Compared to Fiscal Year 2010

Source: Annual Financial Reports	Fiscal Year 2010	Fiscal Year 2011	Change +/- %
REVENUES:			
Legislative Appropriations	\$1,920,752.60	(\$222,454.78)	-111.58%
Licenses, Fees & Permits	\$3,867,055.98	\$3,414,121.15	-11.71%
Interest & Other Investment Income	\$47,334.39	\$16,506.19	-65.13%
Other Revenues	\$5,628,899.43	\$4,057,751.24	-27.91%
TOTAL REVENUES	<u>\$11,464,042.40</u>	<u>\$7,265,923.80</u>	-36.62%
EXPENDITURES:			
Salaries & Wages	\$3,143,676.42	\$3,037,487.82	-3.38%
Payroll Related Costs	\$882,980.40	\$872,766.40	-1.16%
Professional Fees & Services	\$88,597.17	\$138,345.38	56.15%
Travel	\$146,962.32	\$153,853.18	4.69%
Materials & Supplies	\$85,771.12	\$99,481.95	15.99%
Communications & Utilities	\$109,832.28	\$89,262.50	-18.73%
Repairs & Maintenance	\$36,904.20	\$50,425.49	36.64%
Rentals & Leases	\$117,467.53	\$116,950.12	-0.44%
Printing & Reproduction	\$4,170.47	\$970.15	-76.74%
Claims & Judgments	\$0.00	\$0.00	0%
Distributions to Others	\$4,075,234.07	\$3,531,892.01	-13.33%
Depreciation Expense	\$0.00	\$0.00	0%
Capital Outlay	\$0.00	\$19,456.37	0%
TOTAL EXPENDITURES	<u>\$8,691,595.98</u>	<u>\$8,110,891.37</u>	-6.68%
EXCESS REVENUES OVER EXPENDITURES	<u>\$2,772,446.42</u>	<u>(\$844,967.57)</u>	-130.48%
OTHER FINANCING SOURCES (USES):			
Operating Transfer In:			
Loss on Sale of Capital Assets	\$0.00	\$0.00	0%
Operating Transfers Out:			
Agency 902, Fund 001, Sweep/Loan	\$1,753.96	(\$1,601,250.00)	-91393.42%
Agency 556, Fund 001, Equine Research	(\$81,416.87)	(\$69,806.54)	-14.26%
TOTAL OTHER FINANCING SOURCES/(USES)	<u>(\$79,662.91)</u>	<u>(\$1,671,056.54)</u>	1997.66%
NET GAIN/LOSS FROM OPERATIONS	<u>\$2,692,783.51</u>	<u>(\$2,516,024.11)</u>	-193.44%
BEGINNING FUND BALANCE	\$560,703.70	\$3,253,487.21	480.25%
Adjusting entry to fund balance:			
Funds in Suspense	\$0.00	\$0.00	0%
After AFR deadline	\$0.00	\$0.00	0%
BEGINNING FUND BALANCE – RESTATED	<u>\$560,703.70</u>	<u>\$3,253,487.21</u>	480.25%
Capital Assets & Long Term Liability	<u>\$0.00</u>	<u>\$0.00</u>	0%
ENDING FUND BALANCE	<u>\$3,253,487.21</u>	<u>\$737,463.10</u>	-77.33%

Summary of Key Fiscal Year 2011

Actual Performance Measures As Compared to Target

Fiscal Year 2011	Target	Actual	% of
KEY MEASURES			Target
# of Horse Racetracks Regulated	10	10	100%
# of Greyhound Racetracks Regulated	3	3	100%
Average Regulatory Cost per Racetrack	\$26,150	\$22,083	84%
Number of Racetrack Inspections	100	80	80%
Number of Texas-bred Awards	16,562	11,901	72%
Number of Occupational Licenses Suspended or Revoked	175	114	65%
Number of Investigations Completed	210	208	99%
Percentage of Investigations Resulting in Disciplinary Action	97.00%	95.60%	99%
Percentage of Licensees with No Recent Violations	97.00%	97.32%	100%
Number of Race Animals Inspected Prior to Participating in a Race	77,860	47,368	61%
Percentage of Race Animals Injured or Dismissed from Racetracks	0.35%	0.46%	131%
Number of New Occupational Licenses Issued	4,775	2,675	56%
Number of Occupational Licenses Renewed	7,625	5,809	76%
Average Regulatory Cost per Licensee	\$47.08	\$52.09	111%
Average Time (minutes) Required to Issue a New Occupational License	7.00	9.88	141%
Percentage of Compliance Audits Passed	98.00%	99.38%	101%
Total Pari-Mutuel Handle (in millions)	\$463.55	\$313.24	68%
Total take to the State Treasury from Pari-mutuel Wagering (in millions)	\$3,991,884	\$3,012,017	75%

GLOSSARY OF RACING TERMS

Accredited Texas-bred (ATB) horse – a Texas-bred horse that meets the accreditation requirements of the state breed registry of that breed of horse.

Breakage - the odd cents by which the amount payable on each dollar wagered exceeds a multiple of 10 cents, except in the event of a minus pool, in which case the breakage is based on a multiple of 5 cents.

Common pool - a pool in which the wagers received at a receiving location are combined with the wagers received at a sending racetrack.

Cross-species simulcast signal - a simulcast signal of a horse race at a greyhound racetrack facility or a simulcast signal of a greyhound race at a horse racetrack facility.

E-wagering – stands for Ticketless Electronic Wagering. These devices may only be used within the enclosure of a licensed Texas racetrack and only under a system approved by the Commission.

Exotic pool - a mutuel pool that involves wagers on more than one entered horse or greyhound or on entries in more than one race.

Handle - the total amount of money wagered at a racetrack during a particular period.

Horsemen's organization - an organization recognized by the Commission that represents horse owners and trainers in negotiating and contracting with racetracks on subjects relating to racing and in representing and advocating the interests of horse owners and trainers before administrative, legislative and judicial forums.

Live pari-mutuel pool - the total amount of money wagered by patrons on the result of a particular live race or combination of live races within the enclosure of the racetrack where the race is being run.

Mixed meet - a live horse race meeting in which more than one breed of horse participates.

Multiple wagering – wagering on two or more animals in one race or on one or more animals in more than one race.

Multiple two wager - a wager on two animals in one or more races.

Multiple three wager - a wager on three or more animals in one or more races.

Odds - a number indicating the amount of profit per dollar wagered to be paid to holders of winning pari-mutuel tickets.

Outstanding ticket (OUTs) - a pari-mutuel ticket that is not presented for payment before the end of the race day for which the ticket was purchased.

Performance - the schedule of horse or greyhound races run consecutively as one program.

Place - to finish second in a race.

Prohibited substance - a drug, chemical, or other substance that in its use or intended use is reasonably capable of influencing or affecting the outcome of a race in a manner contrary to the Racing Act or a Commission rule and that is prohibited by a Commission rule regulating the unlawful influence of a race.

Purse - the cash portion of the prize for a race.

Race date - a date on which a racetrack is authorized by the Commission to conduct races.

Race meeting - a group of days on which horse or greyhound racing is conducted at a racetrack.

Regular wager - a wager on a single horse or greyhound in a single race.

Show - to finish third in a race.

Simulcast - the telecast or other transmission of live audio and visual signals of a race, transmitted from a sending track to a receiving location, for the purpose of wagering on the race at the receiving location.

Simulcast pari-mutuel pool - the total amount of money wagered by patrons at a racetrack on the result of a particular simulcast race or combination of simulcast races.

Stallion owner - a person who is owner of record, at the time of conception, of the stallion that sired the accredited Texas-bred horse.

Straight pool - a mutuel pool that involves wagers on a horse or greyhound to win, place, or show.

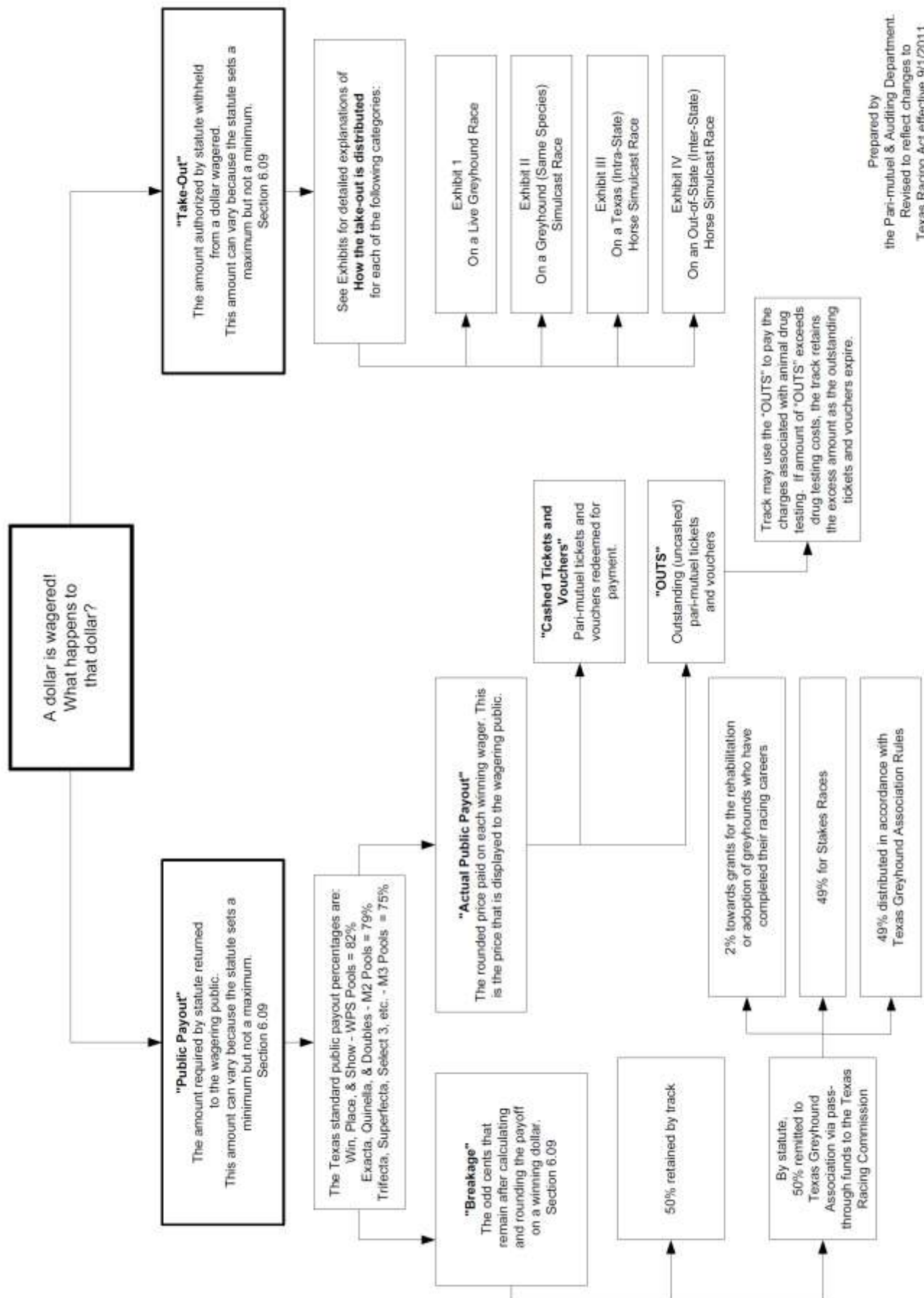
Totalisator - a machine or system for registering and computing the wagering and payoffs in pari-mutuel wagering.

Win - to finish first in a race.

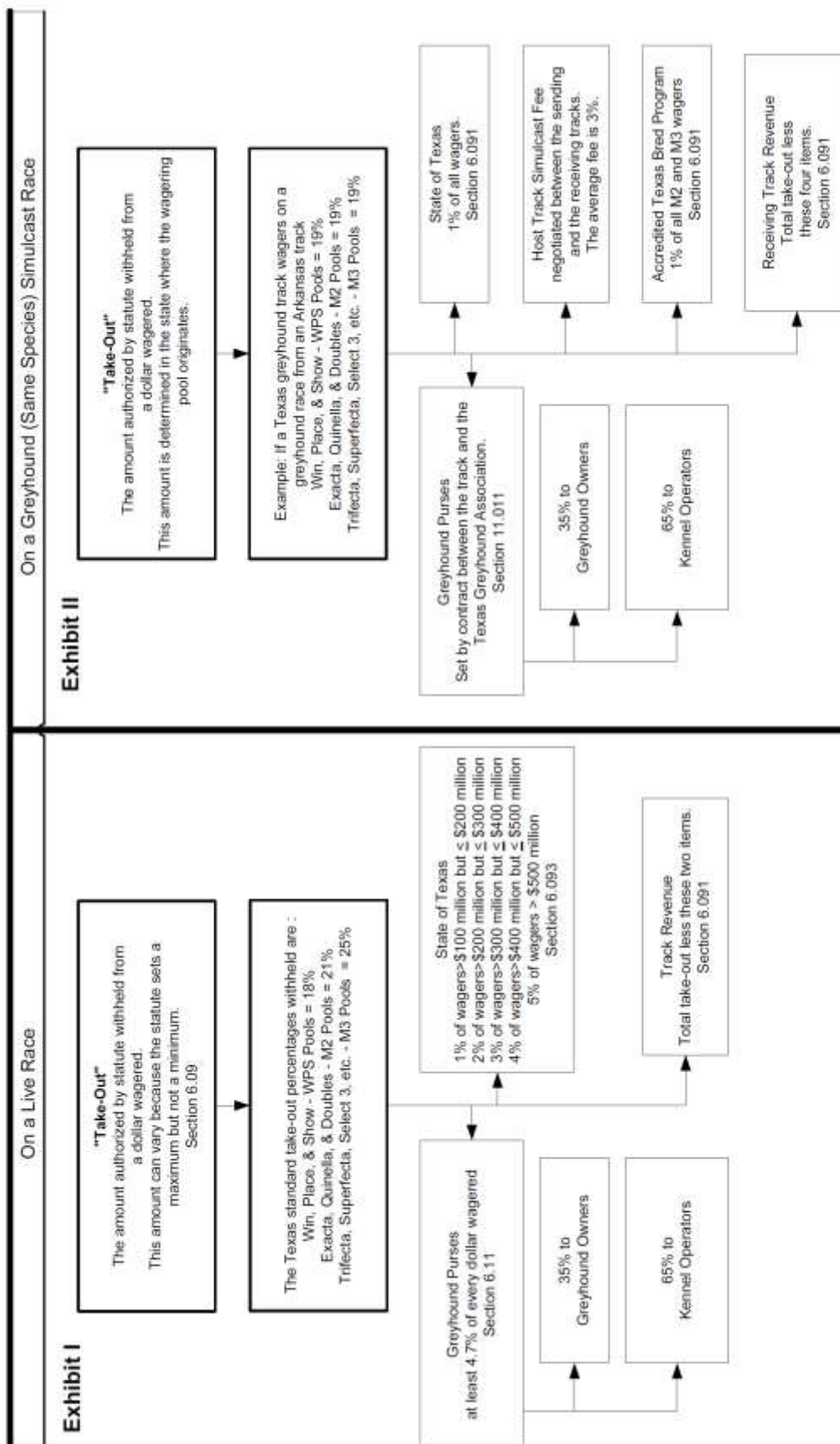
WPS – an acronym for the first three places of a race: Win (1st), Place (2nd) and Show (3rd).

For additional definitions, see §1.03 of the Racing Act and §301.1 of the Commission's rules.

How Money Wagered at a Greyhound Track is Distributed

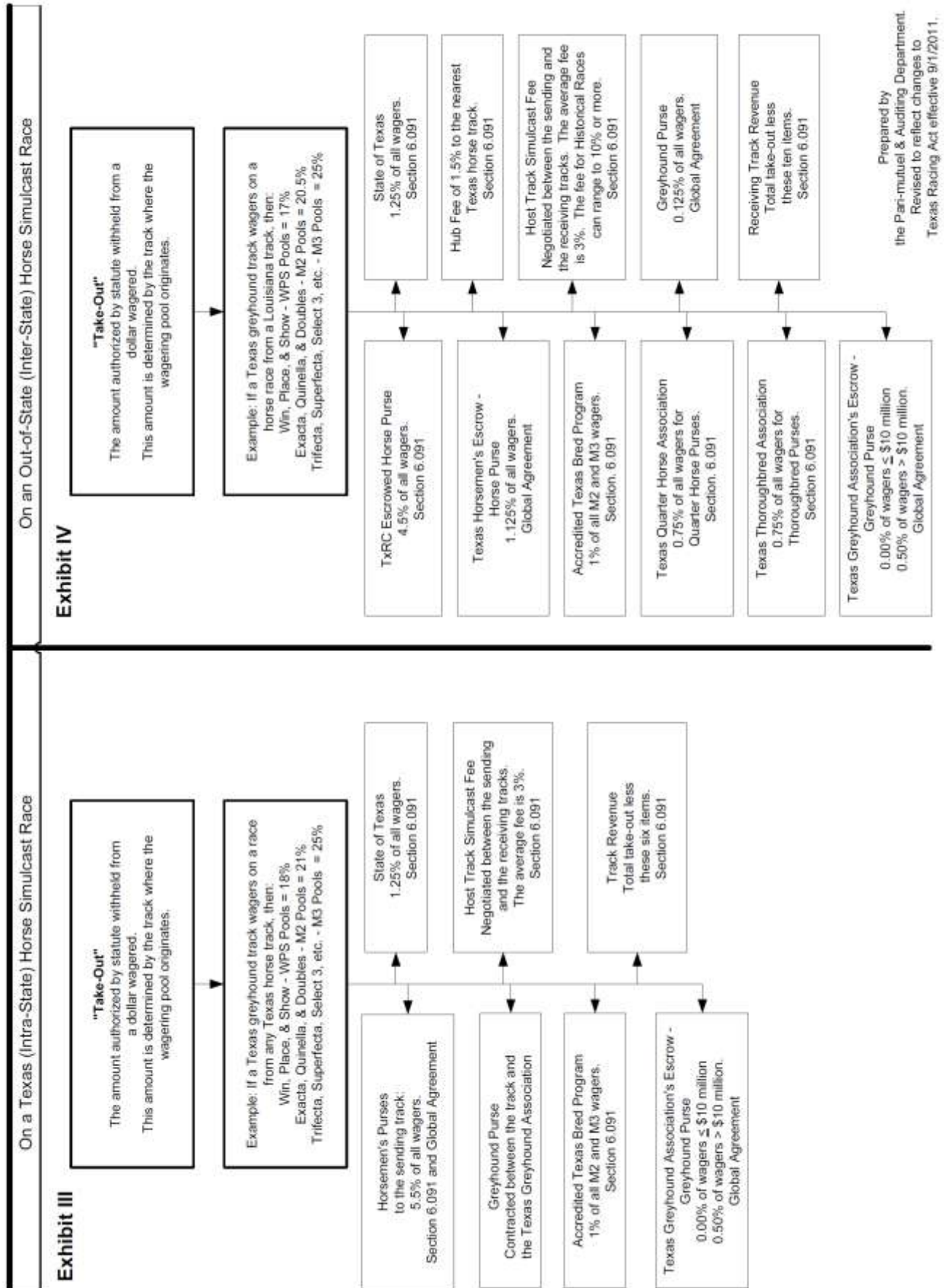


How the Take-Out from a Dollar Wagered at a Greyhound Track is Distributed



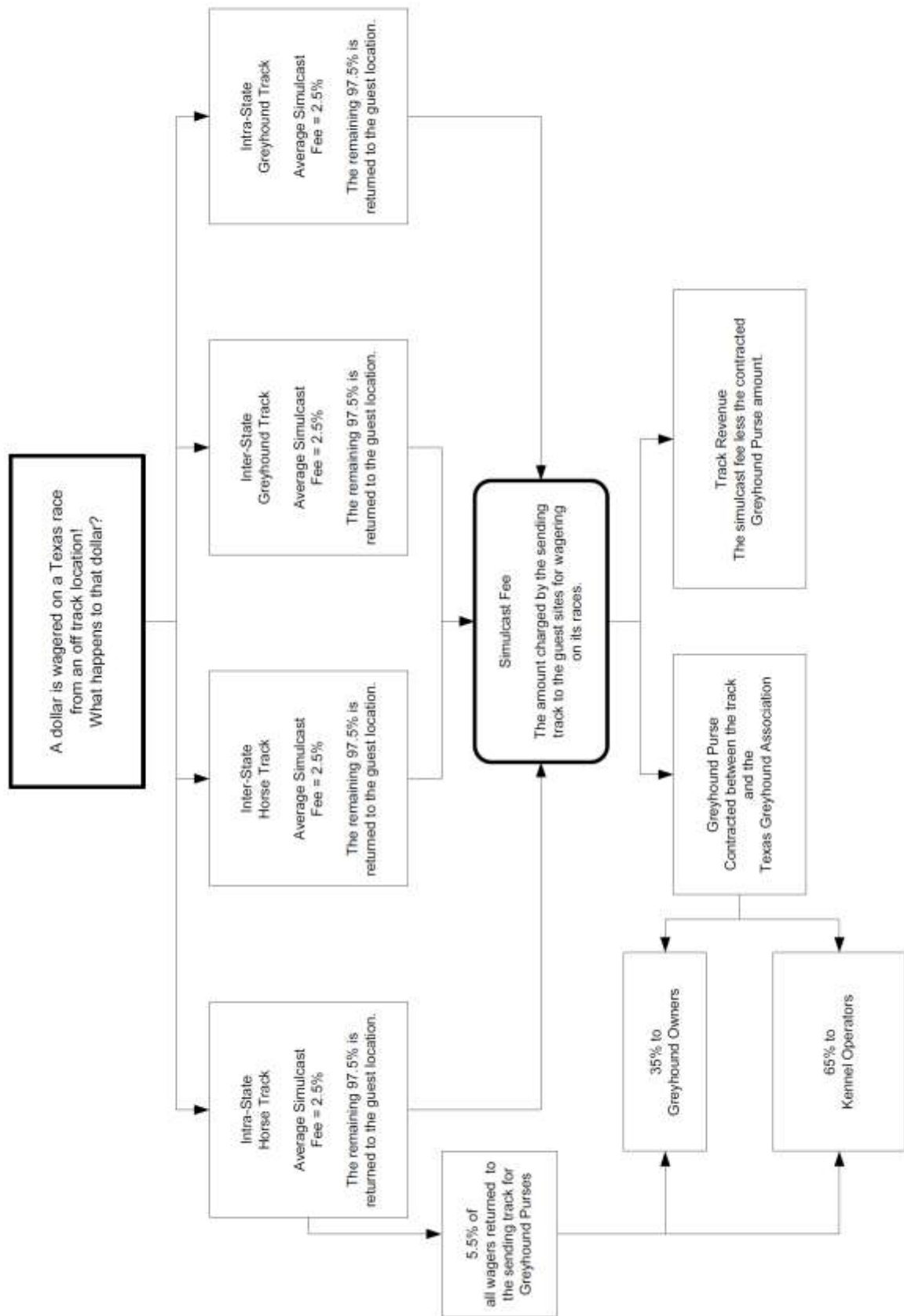
Prepared by
the Pan-mutuel & Auditing Department
Revised to reflect changes to
Texas Racing Act effective 9/1/2011.

How the Take-Out from a Dollar Wagered at a Greyhound Track is Distributed



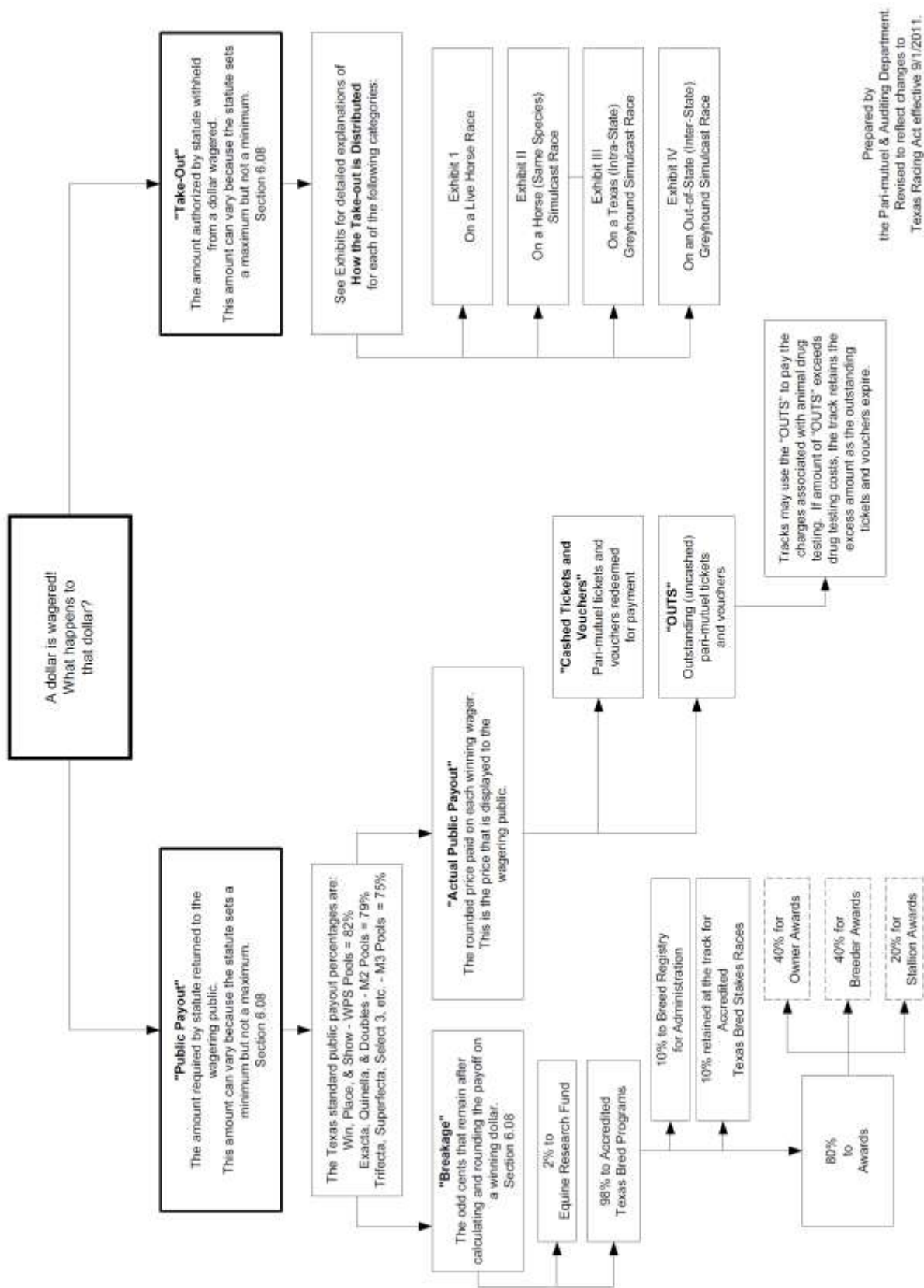
Prepared by
the Pari-mutuel & Auditing Department
Revised to reflect changes to
Texas Racing Act effective 9/1/2011.

How Money Wagered on a Greyhound Track's Exported Race is Distributed



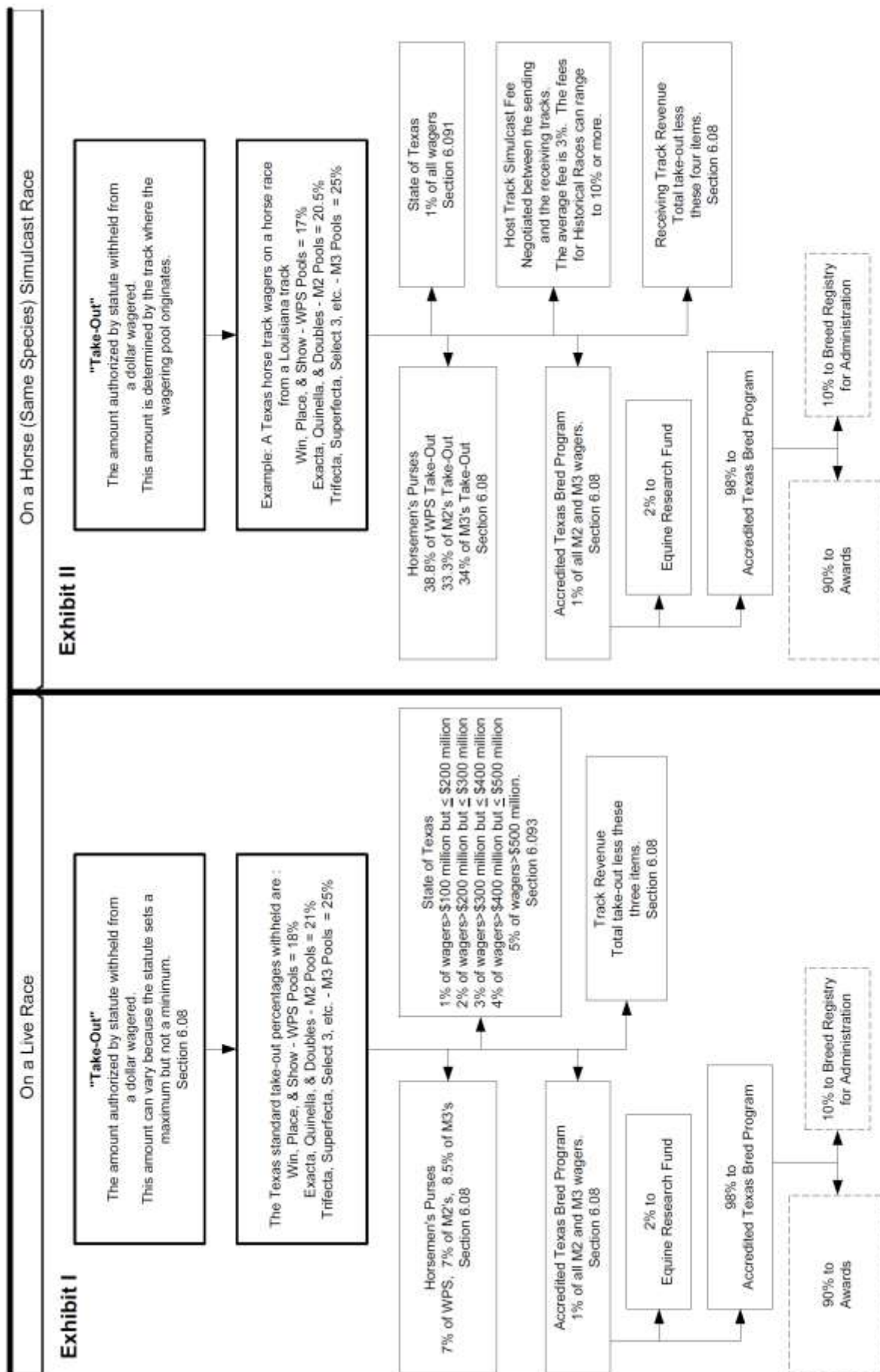
Prepared by
the Pari-mutuel & Auditing Department.
Revised to reflect changes to
Texas Racing Act effective 9/1/2011.

How Money Wagered at a Horse Track is Distributed



Prepared by
the Pari-mutuel & Auditing Department
Revised to reflect changes to
Texas Racing Act effective 9/1/2011.

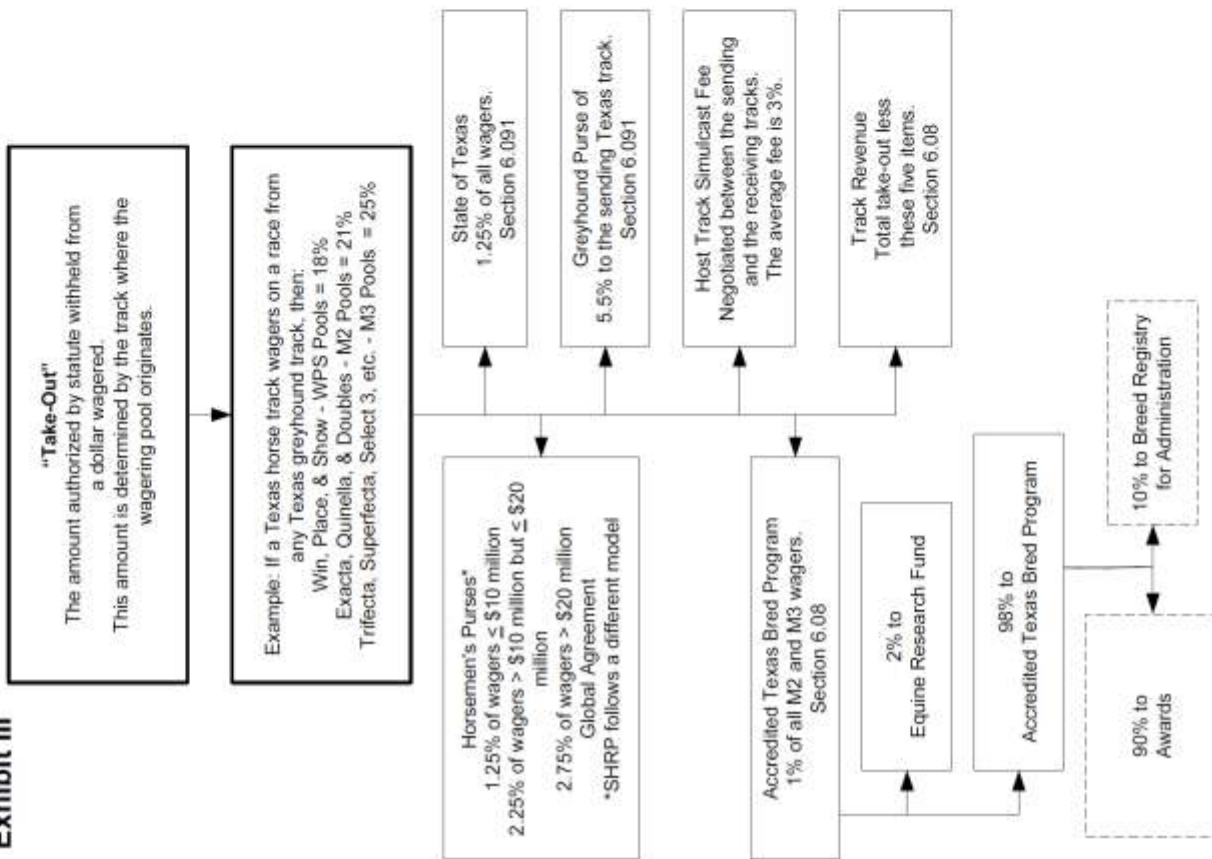
How the Take-Out from a Dollar Wagered at a Horse Track is Distributed



How the Take-Out from a Dollar Wagered at a Horse Track is Distributed

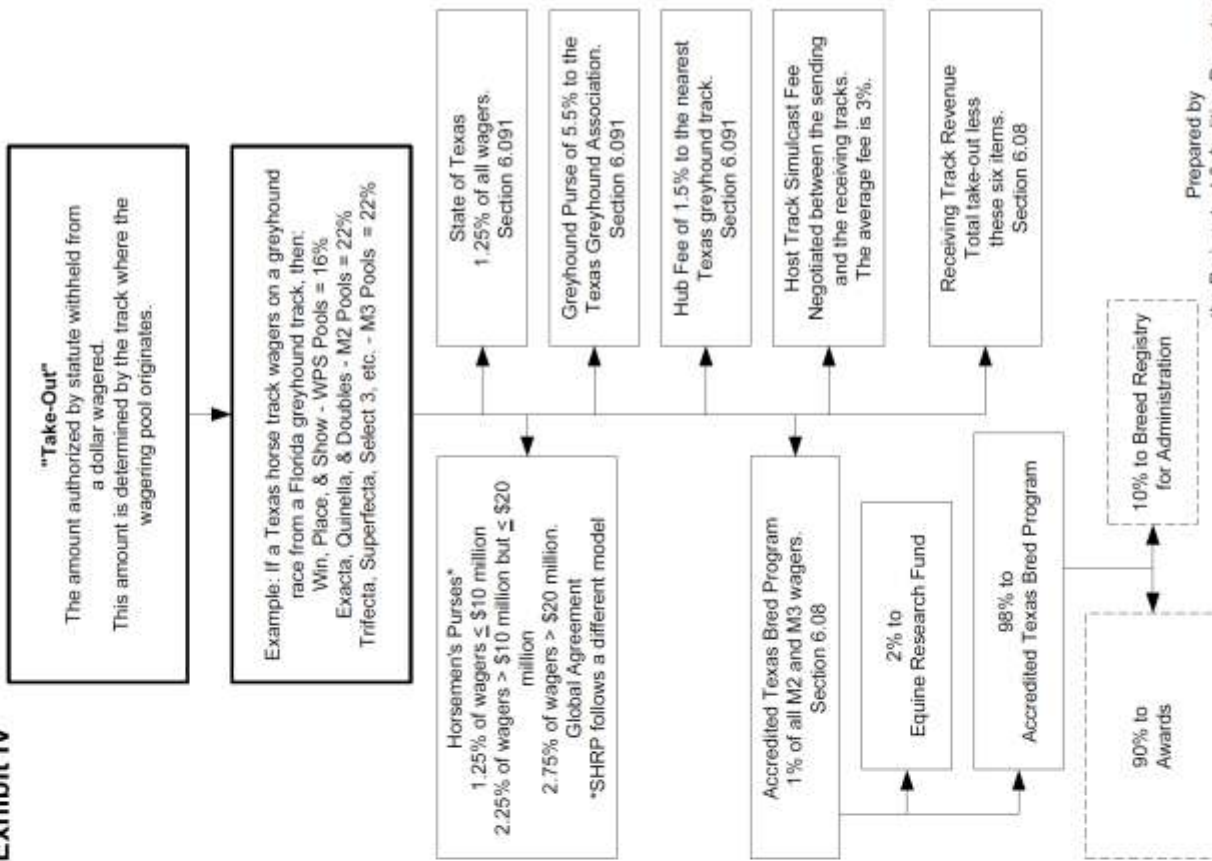
On a Texas (Intra-State) Greyhound Simulcast Race

Exhibit III



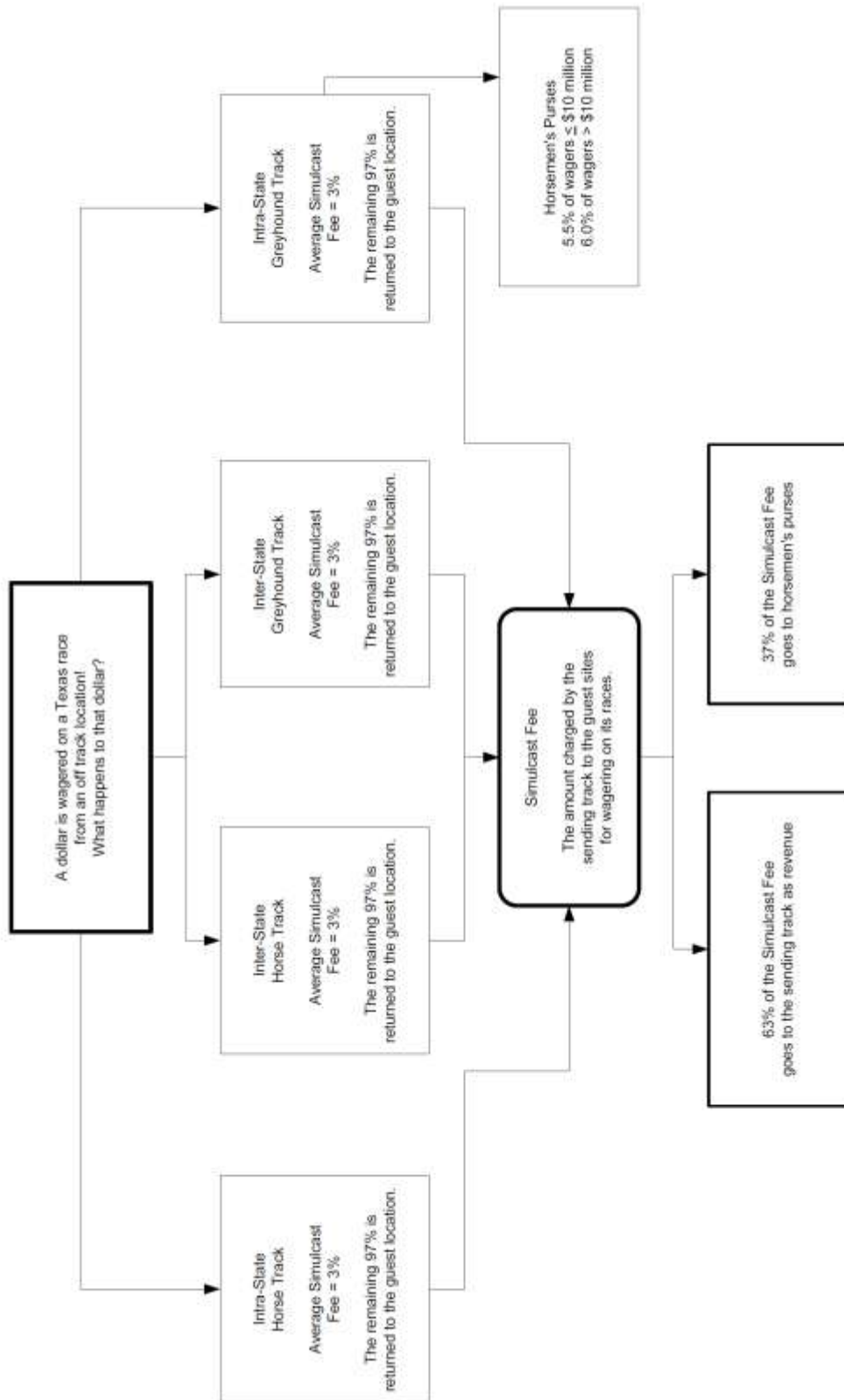
On an Out-of-State (Inter-State) Greyhound Simulcast Race

Exhibit IV



Prepared by
the Part-mutuel & Auditing Department
Revised to reflect changes to
Texas Racing Act effective 9/1/2011.

How Money Wagered on a Horse Track's Exported Race is Distributed



Prepared by
the Pari-mutuel & Auditing Department.
Revised to reflect changes to
Texas Racing Act effective 9/1/2011.

LICENSED RACETRACK DIRECTORY

GREYHOUND RACETRACKS

Gulf Coast Racing

5302 Leopard Street, Corpus Christi, TX 78408
Phone 361.289.9333, Fax 361.299.1970

Gulf Greyhound Park

1000 FM 2004, La Marque, TX 77568
Phone 409.986.9500, Fax 409.986.9603

Valley Race Park

2601 South Ed Carey Drive, Harlingen, TX 78552
Phone 956.412.7223, Fax 956.428.0163

HORSE RACETRACKS

Austin Jockey Club (currently not constructed) – Class 2

500 Dallas Street, 3400 Penthouse, Houston TX 77002
Phone 713.335.1322, Fax 713.654.7814

Gillespie County Fair & Festivals Association – Class 3

Highway 16 South, Fredericksburg, TX 78624
Phone 830.997.2359, Fax 830.997.4923

Laredo Downs (currently not constructed) – Class 2

7220 CPL Road, Laredo, TX 78041
Phone 956.723.6354, Fax 956.725.1949

Laredo Race Park (currently not constructed) – Class 2

c/o Andrea Young, 7575 N Sam Houston Pkwy West, Houston, TX 77064
Phone 281.807.8700, Fax 281.807.8777

Lone Star Park at Grand Prairie – Class 1

1000 Lone Star Parkway, Grand Prairie, TX 75050
Phone 972.263.7223, Fax 972.262.5622

Manor Downs (closed July 2010) – Class 2

9211 Hill Lane, Manor, TX 78653
Phone 512.272.5581, Fax 512.278.1892

Retama Park – Class 1

One Retama Parkway, Selma, TX 78154
Phone 210.651.7000, Fax 210.651.7099

Saddle Brook Park (currently not constructed) - Class 2

3822 Business Park Drive, Amarillo, TX 79110
Phone 806.359.9546, Fax 806.359.5239

Sam Houston Race Park – Class 1

7575 N Sam Houston Pkwy West, Houston, TX 77064
Phone 281.807.8700, Fax 281.807.8777

Valle de los Tesoros Race Park (currently not constructed) – Class 2

3900 North McColl Road, McAllen, TX 78501
Phone 956.687.7751, Fax 956.994.9734

RACING INDUSTRY ORGANIZATIONS & RELATED ASSOCIATIONS DIRECTORY

American Quarter Horse Association

P.O. Box 200, Amarillo, TX 79168
Phone 806.376.4888, Fax 806.349.6402

Association of Racing Commissioners, International (ARCI)

1510 Newton Pike, Suite 210, Lexington, KY 40511-1222
Phone 859.224.7070, Fax 859.224.7071

Jockeys' Guild

P. O. Box 426, Buda, TX 78610
Phone 512.826.3344

Texas Animal Health Commission

P.O. Box 12966, Austin, TX 78711-2966
Phone 512.719.0700, Fax 512.719.0719

Texas Appaloosa Horse Club

(Requested withdrawal from Texas-Bred Incentive Program on 11/13/98)
1219 CR 203, Collinsville, TX 76233
Phone 972.672.3457, Fax N/A

Texas Arabian Breeders' Association

P. O. Box 215, Forney, TX 75126
Phone 972.564.9430, Fax 972.552.3613

Texas Department of Public Safety

P.O. Box 4087, Austin, TX 78773
Phone 512.424.2140, Fax 512.424.5779

Texas Greyhound Association

P. O. Box 40, Lorena, TX 76655-0040
Phone 254.857.4377, Fax 254.857.4299

Texas Horsemen's Partnership, L.L.P.

P. O. Box 142533, Austin, TX 78714
Phone 512.467.9799, Fax 512.467.9790

Texas Paint Horse Breeders Association

P. O. Box 163794, Fort Worth, TX 76161
Phone 817.222.6444, Fax 817.222.8489

Texas Quarter Horse Association

P. O. Box 9449, Austin, TX 78766
Phone 512.458.5202, Fax 512.458.1713

Texas Thoroughbred Association

P. O. Box 14967, Austin, TX 78761
Phone 512.458.6133, Fax 512.453.5919

Texas Veterinary Medical Diagnostic Laboratory

P.O. Drawer 3040, College Station, TX 77841-3040
Phone 979.845.3414, Fax 979.845.1794

2012 GRANTED LIVE RACE DATES

GREYHOUND RACETRACKS

Gulf Greyhound Park – 309 performances

Wednesday through Sunday, year-round (two performances on most Saturdays)

HORSE RACETRACKS

Gillespie County Fair & Festivals

Mixed Meet (8 days) – July & August

Saturday & Sunday, July 7 & 8 and Saturday & Sunday, July 21 & 22

Saturday & Sunday, August 11 & 12 and Saturday & Sunday, August 25 & 26

Lone Star Park at Grand Prairie

Thoroughbred Meet (53 days) – April 12 (Thursday) through July 8 (Sunday)

Thursday – Sunday racing schedule is typical, though some weeks vary

Quarter Horse Meet (26 days) – September 14 (Friday) through November 10 (Saturday)

Thursday – Saturday racing (except opening week) schedule

Laredo Race Park

Mixed Meet (8 days) – August 3 (Friday) through August 25 (Saturday)

Friday – Saturday racing schedule

Longhorn Downs

Thoroughbred Meet (18 days) – July 20 (Friday) through August 26 (Sunday)

Friday – Sunday racing schedule

Retama Park

Quarter Horse Meet (20 days) – June 8 (Friday) through August 11 (Saturday)

Friday – Saturday racing schedule

Thoroughbred Meet (26 days) – October 5 (Friday) through December 29 (Saturday)

Friday – Saturday racing schedule

Sam Houston Race Park

Thoroughbred Meet (31 days) – January 20 (Friday) through March 12 (Monday)

Friday – Monday racing schedule (no live races February 5 due to Super Bowl)

Quarter Horse Meet (27 days) – March 22 (Thursday) through May 19 (Saturday)

Thursday – Saturday racing schedule (Friday – Sunday on May 11-May 13)

Valle de los Tesoros

Mixed Meet (6 days) – August 17 (Friday) through August 26 (Sunday)

Friday – Sunday racing

(Check with the racetracks to confirm their specific racing schedule or visit the Commission's website at www.txrc.state.tx.us for the detailed racing schedules.)

2011 AND 2012 APPROVED BREED SPLITS

What is a "breed split?" Under the Racing Act, a portion of the money wagered on simulcast races offered at horse racetracks is dedicated to purses and the Accredited Texas Bred Incentive Programs. Because this money is not directly related to live racing at Texas tracks, the Commission has developed a procedure for fairly dividing it for payout to the owners and breeders of the different breeds of horses.

Pursuant to Commission rules, each year the racetracks must negotiate with representatives of the officially recognized organizations representing horse owners, trainers, and/or breeders for the allocation of purse funds. The tracks then recommend for Commission approval a specific allocation among the breeds for the funds generated at their respective tracks. In determining the percentages by which ATB Incentive Program funds generated from simulcasting are divided, the Commission may consider criteria in accordance with Commission rules. This allocation of purse and ATB funds among the various breeds of horse is commonly referred to as the "breed splits."

PURSES	GILLESPIE CO	MANOR	LONE STAR	RETAMA	SAM HOUSTON
Arabian	0.00%	0.00%	0.813%	1.50%	1.40%
Paint	1.50%	1.50%	0.437%	0.50%	0.60%
Quarter Horse	68.95%	72.89%	16.7875%	21.56%	21.56%
Thoroughbred	29.55%	25.61%	81.9625%	76.44%	76.44%

TEXAS-BRED INCENTIVE PROGRAM

Arabian	2.00%	2.00%	2.00%	2.00%	2.00%
Paint	1.00%	1.00%	1.00%	1.00%	1.00%
Quarter Horse	64.67%	64.67%	32.33%	32.33%	32.33%
Thoroughbred	32.33%	32.33%	64.67%	64.67%	64.67%

ESCROWED HORSE PURSE ACCOUNT

The money set aside for the escrowed horse purse account is derived from wagering on interstate horse racing simulcasts at greyhound racetracks. The Racing Act requires each greyhound track to deposit with the Commission 4.5 percent of those wagers, to be paid to the various Texas horse racetracks. Each year, the horse racetracks are permitted to request money from this account. The Commission then approves a percentage allocation to be applied to money deposited in the account throughout the calendar year, based on purse levels, racing opportunities, and the financial status of the requesting racetracks.

	1.6%	7.8%*	24.65%	24.65%	41.3%
Arabian	3.5%	3.5%	3.5%	3.5%	3.5%
Paint Horse	3.5%	3.5%	3.5%	3.5%	3.5%
Quarter Horse	72.075%	72.075%	72.075%	72.075%	72.075%
Thoroughbred	20.925%	20.925%	20.925%	20.925%	20.925%

*As Manor Downs has not been granted 2012 live race dates, the Commission authorized its share, 7.8% of the Escrowed Horse Purse Account, to be used at Retama Park.

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<http://www.txrc.state.tx.us>

Note: Except where otherwise indicated, information in this report
is for calendar year 2011 and has not been audited.